# PANAMA

## HEARING

BEFORE THE

## SELECT COMMITTEE ON NARCOTICS ABUSE AND CONTROL HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

SECOND SESSION

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JUNE 19, 1986

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(99th Congress)

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# HEARING ON PANAMA

THURSDAY, JUNE 19, 1986

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE ON NARCOTICS
ABUSE AND CONTROL,
*Washington, DC.*

The select committee met, pursuant to notice, at 10:38 a.m., in room B-318, Rayburn House Office Building, Hon. Charles B. Rangel presiding.

Present: Representatives Charles Rangel, James H. Scheuer, Benjamin A. Gilman, E. Clay Shaw, Jr., and Michael L. Strang.

Staff present: John T. Cusack, chief of staff; Elliott A. Brown, minority staff director; and Catherine Chase, finance/administrative officer.

The CHAIRMAN. The first panel will make a statement on the record. Colonel Hemovich, Martin Scheina, Major Michael Bennett, Roger Merletti, David Studley.

On Monday, June 16, for the record, Congressman Benjamin Gilman and I and staff met with the intelligence community at a closed meeting at which time representatives from the Defense Intelligence Agency were present.

This morning, due to logistics, the DIA was supposed to testify at a closed meeting following the CIA, and that room was surrendered.

So that we might go to the open part of this meeting, I would ask this panel—Colonel, what happened to your panel?

Colonel HEMOVICH. Sir, they are outside.

The CHAIRMAN. That is OK. Well, you speak for all of them, do you not?

Colonel HEMOVICH. Yes, sir.

The CHAIRMAN. For the record, is there any new information or any answers to the questions that Ben Gilman and I asked last Monday, June 16, that you could possibly have shared with us this morning?

Colonel HEMOVICH. No, sir; there is no new information.

The CHAIRMAN. Elliott, I cannot think of—Jack?

Mr. CUSACK. No.

The CHAIRMAN. Let me thank you for your cooperation in the past, and we will be working very closely.

Thank you, Colonel.

Colonel HEMOVICH. Yes, sir.

The CHAIRMAN. That is enough for the intrigue.

Today the Select Committee on Narcotics Abuse and Control will conduct a hearing on allegations concerning Panama's involvement in drug trafficking.

According to a front-page article in last Thursday's New York Times, senior administration officials in the White House, the State Department, the Pentagon, and the intelligence community assert that the Commander of the Panama Defense Force, Gen. Manuel Antonio Noriega—who is also the de facto leader of Panama—is extensively involved in drug trafficking, money laundering, and other illegal activities.

According to these newspaper accounts, General Noriega's involvement in drugs and illicit money has gone on for quite some time and has alledgedly been known to administration officials for a number of years.

This morning we will take testimony from representatives of the State Department, the Treasury Department, and the Drug Enforcement Administration. We wish to determine what Panama's role has been—strike that out.

What we are specifically interested in is to see whether there is any evidence supporting allegations being made against General Noriega, and if these allegations are supported, we want to know what our Government is doing to reevaluate United States policy toward the nation of Panama.

Further, if, as alleged, the administration has known about the alleged activities for some time, we would want to know why at this particular time these allegations are being made.

It is the chairman's concern that drug abuse is a serious international problem, that problems that countries inhabiting Latin America with corruption is a historic fact that cannot be disputed. We are involved now in witnessing an epidemic, an explosion, an out-of-hand situation in terms of the production of narcotics, and this person would want to know why at this time, during the height of the Contadora process, are we seeing allegations being made against individuals in the Government of Mexico, now against officials from the Government of Panama, and we do not know just how far down the line this is going to go or whether there is any connection between those who do not support our position in Contadora and these allegations that are being made, and so, on the specific question that I have raised, and that is the allegations that have been made in the newspaper, I hope that the witnesses could direct their testimony to those allegations, to the evidence that you have, and as it relates to the rest of the degree of corruption and drug trafficking and money laundering, we will leave those questions to the question and answer period where the members would inquire.

The Chair recognizes the outstanding leader in this fight against international drug trafficking, Jim Scheuer, for any opening statement that he may wish to make.

Mr. SCHEUER. Thank you, Mr. Chairman.

I do not have a statement at this time.

The CHAIRMAN. Thank you.

Our first witness is James Michel, principal Deputy Assistant Secretary, Bureau of Inter-American Affairs, Department of State.

[Statement of Chairman Rangel appears on p. 24.]

## TESTIMONY OF JAMES H. MICHEL, DEPUTY ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS

Mr. MICHEL. Thank you, Mr. Chairman.

I have a very brief statement, and, if I might, I would like to read it at this time.

The CHAIRMAN. Sure.

Mr. MICHEL. I thank you for this opportunity to testify on the current situation in Panama. The subjects of drug trafficking, narcotics production, and related money laundering in connection with Panama are, as you noted, Mr. Chairman, of great concern to the United States.

I would like to provide in this statement a general overview of our interests and concerns with respect to our relations with Panama to provide a context for the consideration of the specific issues of money laundering, drug trafficking, and the narcotics production.

The CHAIRMAN. Mr. Michel, if you would, you are probably right that staff did ask you to be prepared to cover this broad area.

Mr. MICHEL. Yes, sir.

The CHAIRMAN. But it was not the intention of the Chair or Mr. Gilman that at this time we would go into the entire relationship that we have with the Government of Panama and drug laundering.

Mr. MICHEL. I will be happy to cut that back and——

The CHAIRMAN. What I am really trying to get at is, one, the allegations that were in the newspaper, does your office, Department, agency know who made the allegations; two, are they true to the best of your knowledge? Three, what evidence do we have to support it? Four, how would the allegations be connected with some overall strategy in terms of eradicating crops and getting cooperation from the Government of Panama, and, lastly, why are these allegations coming at this time from, as relates to the Government of Mexico, from some people from the State Department, and are these allegations connected with anyone from your Department? That is basically why we called the hearing.

Mr. MICHEL. Well, let me turn right to that point, Mr. Chairman, and say for the record in this hearing that these press allegations are not anything instigated by the Department of State, by the U.S. Government.

The Ambassador of the United States in Panama 2 days ago made a public statement, and perhaps that public statement would be the best way that I could summarize my testimony on this point.

The CHAIRMAN. Very good.

Mr. MICHEL. It reads as follows:

The United States Government is aware of the articles about Panama that have appeared recently in newspapers in the United States. I do not wish to speculate about the allegations themselves. The Government of Panama has issued its observations on the stories' charges. The United States respects the sovereignty of the Government of Panama and intends to continue working with its duly-elected officials and representatives in pursuit of our shared goals. High on the list of goals is the combatting of narcotics activity in its various forms. In this regard, the Government of Panama and the United States have worked in the past and continue to work closely with President Delvalle and through him with other Panamanian officials with promising results. We are now preparing, for example, to resume talks on a Mutual Legal Assistance Treaty which we hope will lead to concrete measures of

particular value in the area of illicit narcotics traffic and the fruits of this criminal activity.

Mr. Chairman, that is an administration position. That is not something that the Ambassador just made up on the spot.

We do not believe our interests would be served by publicly speculating on charges that appear in the newspaper. We believe that our interests demand that we work with the Government of Panama to ensure the fullest cooperation on such important issues as narcotics control.

The CHAIRMAN. OK. Well, I would not want you to speculate, but I am asking, did anyone from State Department release this information to the press?

Mr. MICHEL. No one that we know of. There is no authorized statement. I do not know who these people are who were referred to as sources within the Government in Mr. Hersh's articles, and no one was speaking to him with authority as a spokesman for the U.S. Government.

We do not consider this kind of public speculation something that would be helpful for us to engage in considering our broad interests in Panama. Without going into them, let me just reiterate that they are broad, they are extensive, they are important, and among them are the addressing the serious narcotics problem, the role of Panama as a geographic hub for trade of all sorts, which makes it a transit point for narcotics. Because it is a banking center it is a place where we believe there is drug money that gets laundered with going through the banks, and if we are to address those issues—and we do believe that we have cooperation from the Government of Panama on these issues—it is going to be necessary for us to work with the elected officials of Panama to strengthen their ability to institutionalize democratic values and systems in the country, which is something they want, not something we are doing to them or for them, something that they are doing that we can help them to do, and provide a better basis for strength and cooperation to address the issues of mutual concern, including narcotics control.

I think it is obvious that this approach, this set of objectives, would not be advanced by the Government making the kinds of public assertions that are made in these news articles, and so while the journalist identifies sources as individuals within the Government and former Government officials and retired people who used to work for the Government, that is not the position of the Government. The position of the United States is the quote that I just read from Ambassador Davis.

The CHAIRMAN. Well, Mr. Secretary, I could not agree with you more on that, that these type of allegations really do not help in our fight against controlling international drug trafficking, but does the name Mr. Redman mean anything to you?

Mr. MICHEL. Yes.

The CHAIRMAN. What is his job?

Mr. MICHEL. Mr. Redman is the deputy spokesman of the Department of State.

The CHAIRMAN. Well, I would think that everything that you said about Panama would equally apply to the Government of Mexico. We have friends, allies, border people that we are working

with on a daily basis trying to help out and restructure in their loans, joining with them against the fight against communism, an ally against aggression to the continent, a country that has had severe corruption problems, working agreements with the high representatives in the United States including the Attorney General, all types of treaties of extradition as it relates to criminal activity, and then Mr. Redman said that high officials in the Mexican Government were corrupt. Commissioner von Raab said that the corruption was so deep that it interfered with our cooperation with them on drug matters, and the State Department supported that, and it was shocking to me, because, as you well pointed out as it relates to the Government of Panama, it did not seem to me that that would help deal with any of the problems that Mexico or the United States was having in this specific area.

Mr. MICHEL. I am not familiar with the particular statement by Mr. Redman to which you are referring, Mr. Chairman. I think——

The CHAIRMAN. Well, are you familiar with the statement made by Commissioner von Raab of Customs?

Mr. MICHEL. I am.

The CHAIRMAN. Well, are you familiar with the fact that Mr. Redman said that Mr. von Raab was correct?

Mr. MICHEL. I do not believe I read that anywhere or heard that anywhere from Mr. Redman.

The CHAIRMAN. To help the Secretary and refresh his recollection, Mr. Redmon supported the statement made by Customs Commissioner von Raab.

Mr. MICHEL. Mr. Chairman, let me offer to provide for the committee everything that the Department of State press spokesman has said on the subject of Mexico in recent weeks.

The CHAIRMAN. Well, who can be a better spokesperson than you? You are familiar with the statement made by Customs Commissioner von Raab. Do you support what he said?

Mr. MICHEL. I do not think that the further public——

The CHAIRMAN. Mexico bashing.

Mr. MICHEL [continuing]. Speculation on this subject would be in the interests of the United States in having the cooperation that we believe is necessary to address these important issues.

The CHAIRMAN. I could not agree with you more.

Mr. MICHEL. I do not believe that my remarks should be construed as denying the existence of problems, and I do not think it is a healthy thing for us to pretend that there are no problems of corruption in any other country with which we seek to cooperate, but I think we also need to recognize that there are officials within these governments who share our objectives, who are concerned about the implications of narcotics traffic and the corrosive influence of narcotics money on their societies and who want to cooperate with us.

The CHAIRMAN. Mr. Secretary, I do not have any problem with anything that you have said, but I am just going to accept the fact that Mr. Redman is a part of our Government. This committee is trying desperately hard to gain the cooperation and confidence of the governments that are involved in drug trafficking. We are working around the clock, and I am just saying that when Mr.

Redman supports these types of statements I am assuming that he is a spokesperson for your Department.

Mr. MICHEL. I am unaware of a particular statement by Mr. Redman that commented on the testimony of any individual.

The CHAIRMAN. Well, we are going to allow the record to remain open. There is no question—is there anybody on this panel that has any question that Customs Commissioner—strike that out—that Mr. Redman, deputy spokesman for the State Department, did not support the statement that was made by Customs Commissioner von Raab or would like to comment on that? Mr. Secretary?

Mr. MICHEL. I do not believe that he addressed it. My memory could fail me.

The CHAIRMAN. I know what you are saying, and I am saying I remember it directly, because I have been questioned on it too many times myself. Now all we want to do is refresh your recollection.

Mr. Dion, do you have any recollection at all about the spokesman's comments about von Raab?

**TESTIMONY OF JERROLD MARK DION, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL NARCOTICS MATTERS, DEPARTMENT OF STATE**

Mr. DION. Mr. Hesse of our staff reminds me that Mr. Redman, in response to a question from the press, said that he would categorize the hearing as fair and balanced.

The CHAIRMAN. That is good enough.

Mr. DION. Now I do not think that that said that he agreed with what Mr. von Raab had said.

The CHAIRMAN. Mr. Hesse, I am being more direct in saying that the spokesman of the State Department substantiated and supported the statement made by the Customs Commissioner.

Mr. DION. No, sir, I do not——

The CHAIRMAN. I am asking Mr. Hesse.

What is your independent recollection in saying that the hearings were fair. You are talking about the Senator Helms hearings?

Mr. HESSE. Yes, sir.

The CHAIRMAN. Well, that is a hearing that would be a hearing by itself, of it being fair and balanced, but assuming that it was, I am talking specifically about the statements attributed to the State Department, and the reason I am spending so much time here on this issue is to see whether there is any connection between countries being selected.

Now, what is your best recollection, Mr. Hesse, of the statement made by Mr. Redman as it relates to the statement made by Commissioner von Raab?

Mr. HESSE. In terms of whether there was testimony presented on both sides of the issue at the Helms hearing, Mr. Redman said that he thought the hearing was fair and balanced. As to the specific allegation raised by the Commissioner of Customs——

The CHAIRMAN. Exactly.

Mr. HESSE [continuing]. I do not believe and it is not my recollection that Mr. Redman qualified or quantified those particular comments.

The CHAIRMAN. OK.

Mr. Dion?

Mr. DION. Yes, sir.

The CHAIRMAN. You do not have any independent recollections?

Mr. DION. No, sir.

The CHAIRMAN. Mr. Queen, do you have any recollections at all about—you know, it's our Government, you know.

## TESTIMONY OF DAVID D. QUEEN, DEPUTY ASSISTANT SECRETARY [ENFORCEMENT], DEPARTMENT OF THE TREASURY

Mr. QUEEN. As a representative of the Treasury Department, I am rather loath to——

The CHAIRMAN. No, just sound government. I am just trying to find out what the executive is up to, but we would like to work it out together.

Do you have any independent recollection of what was reportedly said by Mr. Redman, the spokesman for the State Department?

Mr. QUEEN. I do not.

The CHAIRMAN. OK. But let me substantiate what you said, Mr. Secretary, that it does not seem that this would be the way for us to be doing business and making these statements public, as have been made by members of our Government as relates to the Government of Mexico, and I think what you are saying is that you have no information or evidence that allegations made against the government officials in Panama emanated from the State Department or any representatives or spokesmen of the State Department.

Mr. MICHEL. I am saying that there is no Government policy to promote the stories that have appeared in the newspaper and that the Department of State has commented on these only in the same tenor as Ambassador Davis commented in the material that I quoted in my testimony.

The CHAIRMAN. My last question, Mr. Secretary, is that in your official capacity as it relates to the international narcotic trafficking, does the question of the Contadora negotiation become a part of your office discussions?

Mr. MICHEL. No, sir, not in this context at all.

Let me say that we have obvious interests in the Contadora process. We support democratization throughout this hemisphere. We support a comprehensive implementation of the Contadora document of objectives. We are not engaged—and I think the implication of your question in the opening, and I may as well get right to it——

The CHAIRMAN. I wish you would.

Mr. MICHEL [continuing]. Was that somehow because we do not like the regional policy of Mexico or the regional policy of Panama that we planted stories in the newspaper to publicly embarrass leaders of those countries, and I am happy to say that that is not the policy of this Government, and we have not done it.

The CHAIRMAN. Well, even though you say that you do not believe that Mr. Redmon supported the statements made publicly by von Raab or the statements in response to the fair and well-balanced hearings held by Senator Helms, would you not agree that

Secretary Elliott Abrams and Mr. von Raab made similar types of allegations involving corruption——

Mr. MICHEL. No, sir.

The CHAIRMAN [continuing]. Of the people, of government officials in Mexico?

Mr. MICHEL. No. Again I will be happy to provide Assistant Secretary Abrams' statement in those hearings for this committee.

The essence of it was to discuss candidly that there are problems in our relations with Mexico and to emphasize the need for cooperation with Mexico in addressing issues of common concern.

The CHAIRMAN. Mr. Scheuer?

Mr. SCHEUER. Thank you, Mr. Chairman.

Secretary Michel, I am very concerned with what I have heard here. You state it is not the policy of our Government to plant stories about Mexico, and probably it should not be, but it seems to be the policy of our Government to plant stories or to make statements that are really in their essence mush. Mush.

You talk here about high on the list of shared goals is the combating of narcotics activity. With the Government of Panama we have worked in the past and we continue to work closely with promising results. I am just sort of paraphrasing, combining some phrases here. Now that is pure bunkum. Everybody knows that as far as Panama is concerned and as far as Colombia is concerned and as far as Mexico is concerned, whatever the mush might be that would emanate from the State Department, this is not truth telling.

There are no shared goals that seem to dominate the direction of the thrust of the activity of these governments. We are not working closely together; there are not promising results.

In all of these governments and in many others in Latin America, you have a very mixed bag. Yes, with some officials at some levels you do have shared goals. There are some very decent committed officials in these governments, but in almost all of these governments you have a Shakespearean play going on with five different plot lines. You have some officials articulating their goals and our goals and working diligently with us. You have other officials at very top levels with very responsible positions in the armed services and in their justice system who are corrupt, who are involved in the trafficking themselves, who destroy that government's ability to work with us on shared goals with promising results.

The fact is the results of our efforts in Latin America—and I am not blaming you, and I am not blaming the State Department; we have an incredibly difficult situation down there—but the results have been a disaster. The results have been that we are totally unable to control the flow of narcotic drugs into this country due in large part to the corruption of top level officials in all of these governments plus some abroad who are participating in the narcotics trafficking, so to say, except with reference to some officials in some of these governments that we share goals and that we are working closely with them and that there are promising results, is kidding the American people and engaging in kind of a doublespeak, doublethink that is really not helpful.

I think what the American people would like to know and what I would like to know is how are we using our clout with these governments, how are we using our foreign aid, our financial aid, our technical assistance in a vast number of areas, our trade concessions, to concentrate some minds there to get some real cooperation in stanching the flow, the hemorrhage of narcotic drugs into our country, and for us to hear these innocuous platitudes and glittering generalities about high on the list of shared goals really is utterly frustrating. That is not the real world as we see it, and as every American in this country knows it in every city, town, hamlet in the country, there are adequate supplies of every conceivable narcotic drug to meet the demand of the market.

Mr. MICHEL. To meet the substantial demand.

Mr. SCHEUER. President Reagan has talked about the free play of market forces, and, believe me, it is true in narcotic drugs. Whatever the market demands, the market gets.

Mr. MICHEL. Tragically true.

Mr. SCHEUER. Right.

Now, what is the point of talking all this pap about shared goals and high on the list of shared goals and promising results and so forth? The results have been disastrous. As far as shared goals are concerned, maybe for a few people in some governments, but as far as official government actions are concerned to cooperate with us in any competent, effective way its a bloody disaster all over the map.

Is there any encouragement that you can give us that things are going to happen differently and that we are going to stanch that flow of drugs through real cooperation with these governments and our own law enforcement agencies?

Mr. MICHEL. Mr. Scheuer, I think that Mr. Dion can answer this in greater detail, but I think it is not correct to equate this statement with the totality of what we are doing. This is a public statement of policy position. That does not mean that that is all there is. And in fact there is cooperation in the case of Panama in particular in eradication, and there have been sprayings of marijauna crops in Panama with the full cooperation of the Government of Panama. Now would somebody in Panama rather those crops had not been sprayed? Probably so. Were they sprayed? Yes, they were. So the fact there is not unanimity does not mean that there is no action.

Secondly, the Government of Panama has been among the most forthcoming in the interdiction of boats and ships. There are a great many vessels that fly the Panamanian flag, and the Government of Panama has routinely authorized us to interdict those ships flying the Panama flag suspected by our Coast Guard of carrying narcotics in their cargoes.

We are discussing a mutual legal assistance treaty that would provide further mechanisms for the law enforcement authorities on both sides, Panama and the United States, and we are getting cooperation with that to the point that a meeting to begin the discussion of that treaty has been scheduled for next week.

Now I cannot say, "Here's the signed treaty," but my point is that there are concrete actions that are being taken, that the state-

ment is not the end of the effort. It is a part of what we are doing, but it is not all that we are doing.

Mr. SCHEUER. I might say parenthetically that Panama as a producing country is not a significant factor. Panama as a transit country is a very significant fact. Are we getting the kind of cooperation that we ought to be having from the Panamanian authorities, on interdicting transshipments?

Mr. MICHEL. That awful force of supply and demand in this area is a very tough one. I cannot say that we are getting results in that it is stopping. I can say that we are getting results in that there are significant seizures, and there would be more coming through if we did not have that cooperation.

I think Mr. Dion, perhaps, could address this in greater particulars.

Mr. DION. Sir, I am able to address the eradication of the marijuana crop and also the——

Mr. SCHEUER. You might pull the mike a little closer.

Mr. DION. I am sorry.

The eradication of the marijuana crop, we have had two joint operations with the Government of Panama, one last September and another one in January, and a third is scheduled for this July, and we think that we have taken out about half or more of the marijuana crop in Panama.

Mr. SCHEUER. Well, would you not say that the production of narcotic drugs in Panama is insignificant compared to the transit of narcotic drugs through Panama and that transit is the main game there?

Mr. DION. I do not know if I would say insignificant. I think that it is substantial, but the interdiction of the drug flow through Panama is far more important, yes, sir.

Mr. SCHEUER. Yes.

Mr. DION. Yes, sir.

Mr. SCHEUER. Well, look, it is an awesomely difficult job. There are no simplistic answers, and I have worked for 20 years with our law enforcement personnel.

When Jack Cusack was heading up the BNDD, the office in Paris, I learned from his knee 20 years ago the ABC's of the international narcotics trade, so God knows it is not simple, and nobody is criticizing you for not having produced perfect answers to these difficult problems. It is incredibly complicated, but I think there is a terrible feeling of frustration here. There is a dichotomy in the State Department. We are schizophrenic. With the one hand we continue all our aid programs of financial aid and technical aid and Point Four Programs and whatnot, and on the other hand there are a few lone invidivuals there who are jawboning with them on narcotics, but I think there is a feeling around here that we are not using our clout with these governments in Latin America, in the Golden Triangle, and the others to say,

Hey, look, it's going to really cost you if you don't cooperate with us in both interdiction and in getting this stuff on the ground before it's been harvested. We don't want the stuff grown, and we don't want it transported, and we want total cooperation from you on both those levels as a condition of our continuing this vast array of positive, constructive relations we have with you.

We cannot afford to have all these constructive relations compartmentalized and have our enforcement efforts at eradication and interdiction considered in a vacuum. They are interrelated, and they must be treated as part of one great program.

The American people want to help. They are the most generous people in the world. We have spent $350 billion or $400 billion since World War II helping other countries solve their problems, give their people a degree of better living, but we want answers to these specific problems that are plaguing our people and destroying the quality of life in our country. And we do not see that you are putting those two together and really using the clout that our positive, constructive aid programs would give you.

The CHAIRMAN. While you are preparing to respond to that succinct question, the Chair would like to say that we will adjourn for 10 minutes and then come back, and also acknowledge the presence of two nuns from East Harlem that are praying for all of us and working very hard on the other end of trying to eliminate the demand question in my community, so we will recess for 10 minutes.

[Whereupon, a brief recess was taken.]

The CHAIRMAN. Mr. Secretary, I do not want to beat a dead horse, but staff provided me with a copy of the New York Times, Wednesday, May 14, and of course I do not want to say that this is accurate reporting, but it says,

> The State Department called the Government of Mexico today to "halt the production and trafficking of drugs in its territories."
>
> Echoing earlier comments by Administration officials, a Department spokesman, Charles E. Redman, said at a briefing here today that there had been a "sharp increase in the amount of drugs, particularly marihuana, entering the U.S. from Mexico." He said the most significant reason for the increase was more widespread and more deeply entrenched corruption among officials nominally engaged in anti-narcotic programs.

And of course then the Mexican Government bashed on him.

Now, that does not refresh your recollection at all?

Mr. MICHEL. Mr. Chairman, I have asked that the texts of the statements by Mr. Redman be brought up here so we can provide them to the committee. I am sorry. I am just not prepared to address this subject without having any recollection of those statements.

The CHAIRMAN. You know, what really surprises me is that there is nobody in the State Department that remembers what its spokesman has said or to indicate that the spokesman was authorized to speak.

Mr. MICHEL. I did obtain by telephone, Mr. Chairman, an excerpt from a statement Mr. Redman made in which he referred to the testimony by Assistant Secretary Abrams noting that that testimony was consistent with our conversations with the Government of Mexico and the law enforcement meeting at Cancun and our continuing dialog on these problems, and he went on to say,

> Our policy is to continue cooperating closely with the Government of Mexico on these serious issues of mutual interest to both our countries.

The CHAIRMAN. I agree with that statement. I was just talking about this May 12 statement that I read where these quotes were attributed to Mr. Redman.

Mr. MICHEL. Well, I would like to attribute the quote I just read to Mr. Redman, sir.

The CHAIRMAN. That is a part of the record, and I know he is making some great responsible statements. I am talking about this statement, though. That does not refresh your recollection.

Mr. MICHEL. It does not ring a bell with me, sir.

The CHAIRMAN. Mr. Shaw.

Mr. SHAW. Thank you, Mr. Chairman.

I am continuously getting more and more frustrated with regard to the direction that we are going, and every time I talk to an ambassador or talk to a member from the State Department, that degree of frustration rises.

I realize that my thinking is probably somewhat simplistic, but how in the world can you from the State Department sit down and talk to these people knowing what they are doing, their knowing what they are doing, and nobody talk about it and nobody come out directly and talk about the corruption that is so widespread?

Why in the world is the most powerful country in the world slipping around with all the niceties, being awfully careful that we do not offend anybody? God knows, their own press is not going to talk about the widespread corruption that exists in many of these countries. I just do not understand it.

Mr. Michel, where on the list of priorities do you find the question of the drug problem as far as the State Department and its relationship with other countries?

Mr. MICHEL. Mr. Shaw, it is a high priority, it is a subject of constant attention, of constant dialog, of constant efforts in our relationship with the countries of Latin America.

I would like to reiterate that of course corruption exists in many countries throughout the world, probably in all countries to some degree, and in some countries there is more of it than in other countries. This is not to say that entire systems from top to bottom, that everyone is corrupt and that it is impossible to have cooperative dealings, that there are not people and institutions within the governments with which we are cooperating with whom we do have shared objectives. I think the evidence that this is so is found in the efforts that they are making.

I take some comfort in addition in what they are saying to us. Not in public forums but in our diplomatic discussion we are sensing an increased awareness on the part of the countries in this hemisphere of the danger that narcotics trafficking poses to their own societies.

I believe that members of this committee have traveled and met with leaders in Latin America, have met with leaders in Latin America who have visited the United States and have experienced that same sense of concern on their part. I think it is genuine, and I think that the actions that have been taken, countries like Colombia and Bolivia, and Peru are making efforts that we did not see before. I think that that is a consequence of the increased awareness of the fact that we do have mutual interest in eradicating that traffic.

Mr. SHAW. Well, let me ask this question. Are your conversations and negotiations with these countries in private more frank than they are in public, because in public—I think Congressman

Scheuer referred to them as mush, and I do not think it is even that solid.

Mr. MICHEL. Mush is our best product perhaps for public statements by the State Department, and that is the nature of the process.

Mr. SHAW. What happens when you get behind the closed door? Do you just tell them what they are doing, that they are tearing us up, and that if they want to continue on and they want us to help them out with some of their debt problems, if they do not want to have every truck completely searched at the border that they better help us out?

Mr. MICHEL. I am not going to sit here before the cameras and go into what happens in private, because then it would not be very private. I can assure you, Mr. Shaw, that we have candid discussion with senior officials at senior levels from other governments.

Mr. SHAW. Well, I guess that is as frank an answer as I am going to get from any spokesman from the State Department, but the frustration level——

Mr. MICHEL. I understand.

Mr. SHAW [continuing]. Is rising. I for one, if I were Commissioner von Raab—and I would like to compliment him for some of his frankness even though he has been chastized for some of it at times; I think it is some refreshing statements that we have been hearing from him, but frankly I would like to see every truck coming over the southwestern border of this country and every car thoroughly searched until such time as the Mexican Government can give us some help from their side, not to punish them but simply to recognize the problem is that we are getting no cooperation and that the intelligence that we have to rely on is simply the little pieces of bread that they will give to us and recognizing that corruption is widespread through the highest ranks of all the police departments along the border, and that is what we saw when we went down into Mexico, and we dropped down below the border and went and talked to some of the commandantes.

I can tell you, it does not take a college graduate or even a high school graduate to figure out what is going on when you have got a commandante sitting across the table wearing diamond rings and Rolex watches, and you know he is making a very small salary, and he will not even talk to you about anything, saying that all the information that we get has to come out of Mexico City.

The President and the Attorney General were very cooperative and outspoken in their conversations with us. They did seem to recognize some problems, but, big deal, the problems are still there and they are growing.

Now I will say that one of the best examples of cooperation we ever had was Mexico. One of the worst examples we ever had is Mexico.

Colombia has come a long way, and some of the other countries have come a long way, but during this whole process the problem continues to escalate, and I would guess that we have not seen anything yet, and the more corruption becomes wider spread, the harder it is for us to be able to do anything about it, and I believe very strongly that the political influence of these people is going to grow to a point where we will never be able to crack the problem.

Mr. MICHEL. And I think that is of concern to the leaders in these countries as well, is the extent——

Mr. SHAW. That is what Colombia saw——

Mr. MICHEL. Exactly.

Mr. SHAW [continuing]. And then they got serious about the problem. The same thing is on the way to happening in Mexico.

Mr. MICHEL. I think this is of concern in particular regard to Mexico, to the President of Mexico, to the Attorney General of Mexico, and other senior officials in that government.

It is a very tough set of judgments that have to be made every day in a very complex relationship as to what actions, what way to approach this problem will be effective, and there have been times when tightened inspections along the border have been employed, and there have been times when that was considered a counterproductive measure because it is not that simple a problem, and these are not easy decisions, as you know, and I do not know what more I can say in particular about this other than to say that the discussions that we have on a government-to-government basis, not in public rooms, are candid and frank, that we sense an increased awareness of the problem on the part of the other governments and that we believe programs of cooperation are achieving results because there is the political will to achieve those results on the part of the cooperating governments. That does not mean that there are no problems within their society, that there are not obstacles for them and for us in addressing these serious issues. It does mean that there is a basis for addressing those problems through a cooperative effort rather than, you know, trying to seal the border, which is probably physically——

Mr. SHAW. I am not saying seal the border.

Mr. MICHEL. No, but I mean a——

Mr. SHAW. I am talking about recognizing the situation of no police cooperation on the other side of the border and, in recognition of that, recognizing that we have to be more thorough in our inspections. That is all I am saying.

Mr. MICHEL. OK.

Mr. SHAW. And I think that we have to, and it is going to interfere with commerce. If a truck full of tomatoes takes 2 or 3 days to get through a check line, so be it. I would rather those tomatoes rot than have all the junk coming in across the border that is coming in, and it is coming right through our inspection stations as well as through the air and across the desert, every way possible.

Mr. MICHEL. OK, but if the farmer who grows the tomatoes goes broke because the tomatoes do not get to market, then what does he do? I mean it has that kind of complexity about it.

Mr. SHAW. Well, I doubt if your decisions are getting down to that particular level as to a specific farmer. I will tell you one thing he is going to do. He is going to raise hell with his government and tell him to close these other farms down. There is going to be a certain amount of pressure within Mexico from those that are getting hurt, the legitimate businessmen that are getting hurt, because the United States has to defend itself by searching all of these vehicles coming through. That will carry a message, too.

Mr. MICHEL. I am suggesting that the economic well-being of Mexico is a part of——

Mr. SHAW. Of course it is.

Mr. MICHEL [continuing]. Overcoming the corruption and overcoming the——

Mr. SHAW. Of course it is, and Mexico recognizes that commerce across its border with us is a very important part of that economic structure, and we have got to work together to keep those lines open, but we do not have to open our borders and not search the vehicles when we know that we are not getting any cooperation from the other side, and that is exactly what we are doing right now, almost.

Thank you. I yield back, Mr. Chairman.

The CHAIRMAN. Mr. Strang.

Mr. STRANG. Mr. Michel, I am sorry I was not here to hear you give your statement. I have read it. I have a couple of questions.

You must have the perception that in yielding to the drug question in Panama, there are some token efforts which basically must be a setup whereby they will arrest some people, they will make some disclosures, and this tends to deflect attention from what is probably really going on in that country, whether we single out an individual or not, but that smacks to me of a setup, and if that is true, can we not develop some better intelligence to know that?

Mr. MICHEL. I do not think I would characterize the degree of cooperation we have had from the Government of Panama as being that superficial so as to be characterized as a setup. I think we have had rather extensive cooperation in the eradication area and in the interdiction area that suggests that serious people are seriously concerned about this problem in Panama. At the same time we know that narcotics do come through Panama, that it is a transit point.

We believe that drug money goes through banks in Panama, and we do need to work harder at those issues.

It is a long-term process. It is not one that has a short-term solution, and it involves the evolution of Panama through the strengthening of their institutions of government, which is a process that is going on.

Mr. STRANG. Well, I think it is a setup. I think you recognize it as a setup privately. I hope you do. And one of the things that concerns me is that now we have out in front of the public some allegations, and allegations should not be the true facts, but the mindset of the public and perhaps certain parts of the world is that Panama has a very serious problem. It impacts U.S. national security. It impacts our ability to deal with the drug question, and it is out there.

You cannot just say, "Well, we don't think that's true," and walk away from it. So how can you develop some answers to say all right, that is not true, and here is why, or it is true and tell the world it is true?

Something has got to happen, because those stories are there now, and it has become now a part of the cultural belief of the United States, particularly those who happen to like to grasp on to situations absent facts.

I do not think what you say is necessarily wrong, but I also do not think it is helpful, and I wonder how we can move forward with you to try to get at the bottom of what has now become part

of the 1986 American rubric of understanding about Panama thanks to the New York Times.

Mr. MICHEL. I think that we move forward, not backward, and that rather than put our energies into investigating whether this or that allegation in several newspaper stories is something that can be publicly addressed one way or the other because it is endless because next week you will get another newspaper story, and then you will be off chasing that rabbit down the trail.

Mr. STRANG. These charges are pretty serious.

Mr. MICHEL. They are indeed, and I do not mean to minimize the charges. What I am suggesting is that I think we need to move forward to see if we can achieve better results in Panama through the forthcoming negotiations on mutual legal assistance through additional spraying of marijuana crops, through increased interdiction efforts, and begin to see—I think over time; I do not think overnight—a diminution and a drying up of the attractiveness of Panama as a place for transit and for money laundering.

Mr. STRANG. Well, one more comment, Mr. Chairman, and then I will go on.

I frankly think that is buying into a setup, that by token compliance, by spraying, by doing this, by jailing a few people, the Panamanians—whoever are doing this; I am not naming an individual because it is hydraheaded. You get one and another one comes. But I think they are buying you off, and I hope you will look at that.

Mr. MICHEL. OK.

Mr. STRANG. Thank you.

Mr. Chairman, I yield back.

The CHAIRMAN. The Chair recognizes the presence of Congressman John Conyers, the distinguished subcommittee chairman of Criminal Justice under the Judiciary Committee.

Before we take testimony from the other witnesses, I just wanted to know, Mr. Michels, when last has the Secretary of State made any major address against international drug trafficking? I am familiar with the recent speech given by Assistant Secretary Abrams, but I just do not recall publicly or privately any statements attributed to the Secretary in this area.

Mr. MICHEL. Let me see if we have that, Mr. Chairman. I know that he has addressed it in other speeches that were not exclusively on the subject of narcotics.

The CHAIRMAN. Well, whatever he said it would be helpful.

Secondly, how long have you been with the State Department?

Mr. MICHEL. Since 1965.

The CHAIRMAN. Have you recalled any speeches attributed to former Ambassador Kirkpatrick at the United Nations on this subject, because I cannot for the life of me recollect any statements that she has made at the United Nations?

Mr. MICHEL. Mr. Chairman, I just am not prepared to deal with that.

The CHAIRMAN. I know. How about Ambassador Vernon Walters?

Mr. MICHEL. Do you have information on that? I really am not prepared on those——

Mr. DION. January 1985. That is when Walters made a major speech to 50 representatives of countries at the United Nations, January 1985.

The CHAIRMAN. What about the Secretary?

Mr. DION. The Secretary spoke in January of 1985 on narcotics in addition to a number of other foreign policy issues which major speech——

The CHAIRMAN. Where?

Mr. DION. Los Angeles.

Mr. HESSE. She made the speech in Los Angeles.

Mr. DION. Los Angeles. In Miami was September 1984.

The CHAIRMAN. Was that just prior to the election in Miami?

Mr. DION. No, I am sorry. It was January 1986 was Ambassador Walters' speech.

The CHAIRMAN. OK, but the Secretary made the speech to the Cuban community in Miami on the eve of the election. I recall that well, but I just do not recall any others that he has made.

When was it, Mr. Hesse, so that I can see—you know, we are involved in a war. I am certain that our general is out front, so when was it the Secretary spoke out on this issue?

Mr. HESSE. September 1984.

The CHAIRMAN. 1984? Last major address on this?

Mr. HESSE. He addressed the issue in September 1984 before the Miami Chamber of Commerce, in January 1985 before the World Affairs Council in Los Angeles, September 1985 before the combined ministers of Economic Summit nations at which he was the principal spokesman in behalf of——

The CHAIRMAN. That was 1985?

Mr. HESSE. 1985. Ambassador Walters spoke in December 1985——

The CHAIRMAN. 1986, wasn't that?

Mr. DION. December 1985, sir, not January 1986.

The CHAIRMAN. So we have at least two major addresses by the Secretary of State on this subject.

Mr. HESSE. I would count three, sir.

The CHAIRMAN. Which is the third? The Miami speech, Chamber of Commerce——

Mr. HESSE. Miami Chamber of Commerce, Los Angeles World Affairs Council, and the Economic Summit meeting, foreign ministers meeting, in September 1985 at the United Nations.

The CHAIRMAN. Three major addresses by the Secretary on this subject.

OK. I want to hear from the rest of the witnesses, but you might be able to help me as to what does it mean, the Vice President's statement that the President has now authorized him to state that the drug problem is now considered a threat to our national security. I know it is important, because the Vice President said it was important, but I have not found anybody in the administration that is able to tell me what does it really mean, so you can hold that question, and then, Mr. Queen, Mr. Cash, or Mr. Dion, the major question is concerning General Noriega, whether or not you have any information concerning corruption on his part, whether or not anyone in your agency authorized these statements to be made to the press, whether or not you know of any statement that

has been made to the press, whether or not the allegations of involvement are subject matters that you have any evidence to share with this administration, and of course, since we have checked with the Secretary of State, to ask whether or not you have turned it over to the intelligence community.

You have heard the line of questions that the committee has had. Your full statements at this time, without objection from the committee, will be entered into the record because we are concerned about our involvement and the cooperation that we are receiving from the Government of Panama.

[The prepared statements of Messrs. Michel, Dion, and Queen appear on p. 25.]

The CHAIRMAN. We are specifically interested in the allegations made against General Noriega.

Mr. Queen.

Mr. QUEEN. From the Treasury Department's perspective, I think the shortest answer is no to everything you asked. No one at the Treasury Department was authorized to make any of the remarks that were reported in the New York Times article. I have no personal knowledge of any facts which would corroborate or disprove the allegations. They are simply allegations. They are very serious, and obviously we are all very concerned about it, but we do not have any information—at least my office does not—which would support the allegations.

The CHAIRMAN. OK. Let us see, that is the Treasury, right? Right.

Mr. Cash from the Drug Enforcement Administration, Operations Division.

## TESTIMONY OF THOMAS V. CASH, DEPUTY ASSISTANT ADMINISTRATOR, OPERATIONS DIVISION, DRUG ENFORCEMENT ADMINISTRATION

Mr. CASH. Mr. Chairman, we have a very active operation in Panama as you well know, but I would have to go along with Mr. Queen. We have no information on the stories that appeared in the New York Times as to the source or the origination except to say that we are reasonably certain that they certainly did not come from the Drug Enforcement Administration.

The CHAIRMAN. Mr. Dion?

Mr. DION. I can certainly speak for the International Bureau of the State Department that no one from our Bureau spoke with Mr. Hersh although he called several people in our Bureau. No one spoke with him. We have no evidence to support these allegations, and they came as a surprise to us when we read about them.

The CHAIRMAN. Were you equally described when the allegations were made against the Government of Mexico?

Mr. DION. Yes, sir. I mean I would not want to say that the question of corruption does not arise.

The CHAIRMAN. It has to arise. I am talking about arising in newspapers. That is what Secretary Michel was talking about, and if the press believes that I am ignoring the—questioning these witnesses on their beliefs as to the allegations as it relates to the general, I am ignoring it, because I agree with the Secretary that your

views on these allegations do not serve any purpose for the people in Panama nor do they serve any purpose for those of us in Congress, and certainly since it is supposed to be the mission of the State Department to diplomatically keep friendly relationships with countries, it does bother me when it is members of the executive branch that are making the allegations where there does not appear to be any strategy. You know, you make the allegations, but after that they are just left dangling, and I do not see what purpose is served.

But you do not have any——

Mr. CASH. No, sir.

The CHAIRMAN. Mr. Conyers.

[Statement of Mr. Cash appears on p. 31.]

## STATEMENT OF HON. JOHN CONYERS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. CONYERS. Mr. Chairman, I apologize to the witnesses and you for not being here earlier to hear the testimony. I was in the Government Operations Committee meeting. At the risk of repeating a question, I would like to know why all of these allegations broke forward at this particular point in time.

The CHAIRMAN. Well, the question has been asked, but they have no idea how these allegations found their way into the press. None of their agencies, departments, have authorized any statements that were made, and they do not know of anyone that did in fact make them. We will be talking with the press, though, at another hearing.

Mr. CONYERS. Is the chairman's summary correct, witnesses?

Mr. DION. Yes, sir.

Mr. CONYERS. Could you suggest perhaps a strategy that might have been behind this, not perceived by the Congress?

Mr. MICHEL. Mr. Conyers, I really think that the question would have to be addressed to the newspaper and to the author of the newspaper article. I will repeat what I said to the chairman earlier, that it is not the policy of the U.S. Government to prompt or promote these press stories.

The CHAIRMAN. Well, if the gentleman will yield, I have been trying to think of as many compliments as I could, Mr. Secretary, for your testimony, but when you say that it is not the policy, clearly it was the policy as it relates to the Mexican Government.

Give me back my newspaper thing, Mr. Hesse.

Mr. CONYERS. Well, Mr. Chairman——

The CHAIRMAN. I am not saying that you have done it here, and notwithstanding the fact that this reporter has a pretty good reputation, it has been the policy as it relates to the Government of Mexico to really get on the record in a very official way to talk about the corruption of high officials in the Mexican Government.

I just would want to know what the strategy would be, but if you say that that is not being done for Panama, I accept your testimony, and I am not going to seek any reasons behind it.

I yield back.

Mr. CONYERS. I appreciate your response, but I do not think it would be seemly for the Congress to go to the press to ask them what the Government strategy is.

Mr. MICHEL. My point, sir, is that it is not a Government strategy to have these articles printed. The decision to publish this article, to research this article, to write this article was made elsewhere, and——

Mr. CONYERS. Elsewhere meaning where?

Mr. MICHEL. Meaning the New York Times and Mr. Hersh and whoever else was associated with the newspaper and individuals whom the reporter persuaded to talk to him on an individual basis, not as an authorized spokesman of any agency or of the U.S. Government.

Mr. CONYERS. You know that?

Mr. MICHEL. I do not know that. I am saying that——

Mr. CONYERS. You are suggesting that.

Mr. MICHEL. I am saying that I have no reason to believe, I have no knowledge of any intention by anyone in authority in the U.S. Government to encourage the publication of these stories that appeared.

We did receive calls, as Mr. Dion said, so we knew that there was something being looked into. We did not respond by providing any information. I know no one who did. Obviously somebody said something somewhere along the line, because it is so stated in the newspaper article, and I do not believe it is made up. I believe individuals did talk to the reporter and that that is reflected in the article, but it is not a Government strategy, it is not a Government decision. It is a decision of the journalist and his editors.

Mr. CONYERS. Well, I thank you very much, Mr. Michel.

Maybe I came in on the wrong panel, Mr. Chairman. Did the Defense Intelligence Agency Panel have anything more to add to this?

The CHAIRMAN. That is secret.

Mr. CONYERS. Oh. Did they tell you?

The CHAIRMAN. They told me it was secret. [Laughter.]

Mr. CONYERS. Well, this is quite a quandary we have here.

The CHAIRMAN. Let me state for the record that we did have closed hearings, and staff was not allowed, and it was not enlightening what they testified to.

Mr. CONYERS. Maybe this is not a mystery. Maybe I should start looking for somebody in Government that set up a strategy and caused this to happen. Maybe the reporters were just sitting around and said, "Hey, look. Panama hasn't been busted in a long time, we haven't written a word about them, and here's all this stuff laying around here. Let's do a story."

How about that, Mr. Michel? Is that as feasible as any suggestion that you have offered?

Mr. MICHEL. Why they would reach that conclusion, I do not know, and my point is, Mr. Conyers, that for some reason the newspaper, journalists, decided to print this article. We were not the reason. We did not encourage it. That is as far as my testimony can go. What motivated it on the part of the journalists and the editors of the New York Times I think is something that I am in no position to speculate about.

Mr. CONYERS. Final question, Mr. Chairman. I thank you for the time.

Do the witnesses feel as disturbed as some of the members here about the confusion created by this kind of operation? Or is this just a casual incident like comets and meteors? Things happen, and so what.

This incident may be destructive to our national security objectives, and I ask if you see it in that light?

Mr. MICHEL. Well, I think that might be somewhat exaggerated, Mr. Conyers, in light of the comments we have made publicly in Panama, and the reaction by the Government of Panama, which I believe accepts what I have said—that this is not, and it does not make any sense for this to be a United States Government strategy. We have stated clearly to the Government of Panama that it is not ours, and I quoted in my testimony a statement made by Ambassador Davis in Panama. The Government of Panama has accepted that. So as far as we are concerned it is not a matter between the two governments. It is a matter that is a newspaper article.

Mr. CONYERS. Well, that is very reassuring. In other words, there are no hard feelings.

Mr. MICHEL. I am sure that this kind of criticism of officials of one government appearing in the press of another country leaves some residue of hard feelings somewhere. But I think that the Government of Panama understands that this is a newspaper story; it is not a United States Government effort for some mysterious motive.

Mr. CONYERS. That is very good to know. Then our Government has disclaimed any connection and responsibility for this story.

Mr. MICHEL. Yes, yes. The text of our statement is in my prepared testimony, which you have, sir.

Mr. CONYERS. All right. Thank you very much. And thank you, Mr. Chairman.

The CHAIRMAN. Mr. Strang.

Mr. STRANG. Thank you, Mr. Chairman.

I would like to ask any member of the panel to comment on this.

Three statements in our material gathered from the news stories which have now become part of the public perception. I will read these three statements to you and ask you to comment.

"The allegations are that according to the State Department, the White House, Pentagon, and intelligence sources there has been longstanding evidence among intelligence officials of General Noriega's activities including his willingness to sell arms to the M–19 rebel group in Colombia." That is alleged to have come from State Department, Pentagon, White House, and intelligence sources.

Next statement. This is New York Times, June 12. "General Noriega is a secret investor in Panamanian export companies that sell restricted American technology to Cuba and East European countries." And those allegations are supposed to have been substantiated from the State Department, senior State Department, White House, Pentagon, and intelligence officers.

Finally, "There is longstanding evidence of Noriega's activities, including his relations with the Cuban Government," quoting from State Department, White House, Pentagon, and intelligence sources.

Any comment?

Mr. MICHEL. I would have to go back, sir, to our official statement that was made by Ambassador Davis of declining to speculate on those allegations.

Mr. STRANG. OK. No comment.

Now, one other question, and then I will yield back.

Do you discredit the New York Times story? Any of you?

Mr. MICHEL. That is sort of like speculating on the allegations, I am afraid.

Mr. STRANG. If the story is true, is it not also probably true that it does not make a tinker's dam if the Panamanians eradicate every marijuana plant in the isthmus as a token of how cooperative they are, because it is a drop in the bucket about what is probably happening? If the story is true.

Mr. MICHEL. That asks us to accept the totality of the story. I guess I come back to—and I know this may sound naive—but I think there is more to the cooperation we are receiving than a token gesture. I believe that the situation in Panama has a systemic dimension—it is not just acts of individuals, but it is a process that that country is trying to go through to develop more capable institutions that can deal with these issues more efficiently. I believe that it is in our interests to carry out a cooperative effort with the Government of Panama, that we have achieved progress that is more than token, and that we will achieve more and that the situation is not one of such hopelessness that it is futile for us to try. Perhaps the other witnesses who deal on program matters would have some comment as to their sense of whether the cooperation is more than tokenism.

Mr. STRANG. I would be happy to hear.

Mr. CASH. Mr. Strang, perhaps I can shed some light from the point of view of the Drug Enforcement Administration in Panama.

There are several areas of cooperation and fruitful benefits that have come from the variety of Panamanian officials with whom we deal at the law enforcement level, and they certainly are by comparison in many other countries more than what I would call token. There is some resolve at whatever level, but their resolve is demonstrated I think by a number of successful investigations that have impacted on the United States. The magnitude is a question that that does not address, I realize that, but there is not a total void.

Mr. STRANG. I will ask one more final question.

What was the provenance of John Lawn's May letter to General Noriega?

Mr. CASH. The letter followed a series of very unusual successful investigations by any standards in any Central or South American country. One of the investigations that was facilitated largely with the cooperation of the Panamanians resulted in the indictment of Roberto Suarez in Bolivia.

Mr. STRANG. Was Noriega specifically involved in that?

Mr. CASH. No, sir. We do not deal specifically with Noriega on enforcement operations.

Mr. STRANG. But you write him letters.

Mr. CASH. But the Panamanian police were, the defense force that we deal with, and he is head of the defense force.

Mr. STRANG. I yield back, Mr. Chairman.

The CHAIRMAN. Thank you.

Let me thank the panel, especially you, Secretary Michel. We have been unsuccessful in getting the Secretary to appear before this committee, and we are still going to try, and we would like to state for the record that we would think in a war that we would be hearing more from him publicly, especially at the United Nations, inasmuch as the President appeared before the United Nations and did not even mention the subject matter of drugs.

It appears to me, Mr. Secretary, that we have more cooperation from more of the narcotic-producing countries than we have ever had in any other administration but that we do expect that more narcotics will be pouring into the United States than ever before in the history of the United States.

Mr. MICHEL. I would agree on both counts, Mr. Chairman.

The CHAIRMAN. So that it is something that I really think that we should be hearing more from our ambassadors at the United Nations, we should be hearing more from the Secretary of State, and my last question is, What does it mean now that the secret of the President declaring drugs to be a threat to our national security? The Vice President said that he was authorized to remove secrecy from that statement. Would anyone know what that means?

Mr. Queen?

Mr. QUEEN. Well, the directive which the President signed has certain legal impacts on the ability of the military to participate in certain otherwise civilian law enforcement activities, and it also represents structuring of internal guidelines that will increase the emphasis placed on narcotics interdiction——

The CHAIRMAN. Well, does posse comitatus have anything at all to do with that? Can they do more than they are doing now because the President says it is a threat to our national security?

Mr. QUEEN. Well, what it does, it establishes a policy from the top down that impacts on agencies that perhaps otherwise in the past have not been as actively involved in the narcotics area.

The CHAIRMAN. Who will be interpreting what it really means? Would that not be the State Department?

Mr. DION. Well, it is a directive from the President through the National Security Council, so as a member of the National Security Council of course the Secretary of State would be involved, but it does not come directly under the aegis of the State Department.

The CHAIRMAN. Well, your office more than any other, I would believe, has jurisdiction over the international trade trafficking, and National Security normally appears as though it is a threat from outside. Could you work on that, because the Judiciary Committee, which has jurisdiction over the constitutional questions that could be involved with military involvement in civilian activities, is trying to work with our committee in trying to see what does it mean, do we need new legislation, how can we be supportive, but we have not been able to see what the impacts are, so, Mr. Dion, if you could check with the National Security.

Mr. DION. Yes, sir.

The CHAIRMAN. Mr. Michel, it has been a pleasure. Give my best to Secretary Abrams, and I assume that the Jon Thomas vacancy is still vacant, Jon Thomas being assistant.

Mr. DION. Ann Wrobleski has been nominated by the White House for this position, and I think she will be having hearings before the Senate in the month of July.

The CHAIRMAN. When would her deputy be appointed? Or do you know?

Mr. DION. I do not know that, sir. I think until Mr. Thomas' position is filled, I do not think we will consider a deputy.

The CHAIRMAN. And do these titles, are they still considered career and political like they used to be, or is it just when the President appoints, he appoints? Are you career?

Mr. DION. Yes, sir.

The CHAIRMAN. And Mr. Michel is career.

Mr. DION. I do not think that there are guidelines as such. I think these are decisions that are made when positions become vacant.

The CHAIRMAN. But the position of Secretary in charge of all of international narcotics, that is considered a political position?

Mr. DION. Let us see. It has been a political position since the creation of the Bureau in 1978.

The CHAIRMAN. So that the person that is about to be confirmed would be a political appointee.

Mr. DION. That is right, sir.

The CHAIRMAN. And my real question is that the deputy that that person would appoint, would that person be political or career?

Mr. DION. I do not think that is clear yet, sir. I do not think that candidates have been considered for that position.

The CHAIRMAN. OK. Are there any other questions?

Let me thank you. We will have to regroup and see where all of this leads.

Do you know of any other country that may be on the list that we could prepare for?

Mr. MICHEL. We do not have a list, Mr. Chairman.

Mr. STRANG. You do not write anything down, right?

The CHAIRMAN. Thank you very much.

Mr. MICHEL. Thank you, sir.

[Whereupon, at 12:18 p.m., the committee was adjourned.]

[Prepared Statements]

OPENING STATEMENT OF HON. CHARLES B. RANGEL

Good morning ladies and gentlemen.

Today the Select Committee on Narcotics Abuse and Control will conduct a hearing on allegations concerning Panama's involvement in drug trafficking.

According to a front page article in last Thursday's New York Times, senior administration officials in the White House, the State Department, the Pentagon, and the intelligence community assert that the Commander of the Panama Defense Force, General Manuel Antonio Noriega, who is also the de facto leader of Panama—is extensively involved in drug trafficking, money laundering, and other illegal activity.

According to the newspaper accounts General Noriega's involvement in drugs and illicit money has gone on for quite some time and has allegedly been known to Administration officials for a number of years.

This morning we will take testimony from representatives of the State Department, the Treasury Department, and the Drug Enforcement Administration. We wish to determine what Panama's role is in the international drug traffic and money laundering, and specifically what evidence supports the allegations being

made against General Noriega. If these allegations are supported, we want to know what our government is doing to reevaluate U.S. policy toward the nation of Panama.

Further, if as alleged, the Administration has known about General Noriega's activities for some time, I want to know why it has waited until now to discuss these very serious claims with members of the press.

Drug abuse is a serious national crisis. It is, itself, a national security threat. Our efforts to control the international production and trafficking of narcotics should not be compromised by other policy agendas. I hope our witnesses can shed some light on our concerns.

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STATEMENT BY JAMES H. MICHEL, DEPUTY ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS

Mr. Chairman, Members of the Select Committee, thank you for this opportunity to testify on the current situation in Panama. The subjects of drug trafficking, narcotics production and related money laundering in connection with Panama are of keen concern to the United States. In my statement I would like to provide an overview of the interstate and concerns that shape our relations with Panama, and which provide the broad context for the consideration of specific issues.

The United States has an unusually broad range of important interests in this small country. Principal among these are:

Maintenance and implementation of our Treaty relationship for operation and defense of the Panama Canal and the use of our military bases;

Assurance of long-term commercial/military transit of the isthmus;

Legitimate access by U.S. firms to a major center of regional and global finance, commerce and trade;

Cooperation to deny use of Panama by nations and organizations whose activities are inimical to our interests;

Protection of large investments by private individual and corporate U.S. citizens;

Assuring the welfare of the many thousands of U.S. citizens who live and work in Panama; and

Encouragement of Panamanian efforts to develop responsible civilian political and governmental institutions with which we will have a shared interest in addressing a broad range of problems, including control of narcotics.

I want to emphasize the importance of this last point. Protecting and advancing all our interests in Panama benefits from stability there, and we have long felt that stability can only result, in the long run, from constitutional order and responsive civilian political and governmental institutions. Viewed in this light, our commitment to assist the development and strengthening of democracy is supportive of all our interests in Panama.

The resignation of President Barletta last September demonstrated inherent weaknesses in Panama's civilian political institutions. Those weaknesses are due to several causes. In part, the condition is the result of the time when most Panamanians expected that important national issues of concern to Panama would be significantly influenced or even decided in Washington. Panama is the youngest country in Latin America and its history is intimately tied to ours. For decades, U.S. citizens headed parts of Panama's government, including its police. Matters such as foreign policy, exploitation of Panama's main natural resource (that is, its geographic location and configuration), were largely outside the ability of its successive governments to control. Panamanians became habituated to the idea that issues of fundamental national importance would be substantially determined by the United States.

In addition, Panama's combined military and police force, now known as the Panama Defense Forces, has a measure of continuing influence in political and governmental matters that is undesirable if civilian constitutional rule is to prosper. However, the relationship between civilian and military elements in Panama's government is not a simple question. The institution known successively as the National Police, the National Guard and since 1983, the Defense Forces, began as a police force. Until 1968, that institution historically supported and influenced civilian governments and the politicians and socio-economic interests that ran those governments. Today, to a very substantial extent, they remain an internal police force with extensive responsibilities that go beyond those of conventional military establishments, such as all aspects of police work, immigration and customs.

In the long range, civil government—elected leaders, executive agencies, legislative agencies, legislative organs, the judicial system—as well as parties, interest

groups, the media and all other elements of civilian society, must be able and willing to function effectively and responsibly to deal themselves with political questions. There must be complementary restraint on the military's part. The Defense Forces must responsibly and professionally execute legitimate public order, internal security and national defense requirements, and they must develop the restraint to do this in a way that preserves and strengthens, but does not retard or replace, civil institutions of government.

This is a difficult process. There is no quick, easy or simple solution for Panama, because it faces an historic systemic problem, a problem of institutional development. As a nation, an economy, a society and a political community, Panama has some serious problems. Panamanians also have the capability to resolve them. We seek to assist whenever we can, recognizing that our own interests on the Isthmus are many and significant. Our interests can only be served effectively by the development of a viable, democratically responsive civilian government that functions in a framework of constitutional order.

We fully support the development of stable, democratic institutions in Panama as the best means of assuring both our long-term interests and those of the Panamanian people. The scheduled termination of our Canal Treaty relationship in 1999 will not end these shared interests.

In considering the recent allegations in the press including those of involvement in narcotics activities, we need to be award of these broader facts. Two days ago our Ambassador in Panama made these public comments:

"The United States Government is aware of the articles about Panama that have appeared recently in newspapers in the United States. I do not wish to speculate about the allegations themselves. The Government of Panama has issued its observations on the stories' charges. The United States respects the sovereignty of the Government of Panama, and intends to continue working with its duly elected officials and representatives in pursuit of our shared goals. High on the list of goals is the combatting of narcotics activity in its various forms. In this regard, the Government of Panama and the United States have worked in the past and continue to work closely with President Delvalle and through him with other Panamanian officials with promising results. We are now preparing, for example, to resume talks on a Mutual Legal Assistance Treaty which we hope will lead to concrete measures of particular value in the ares of illicit narcotics traffic and the fruits of this criminal activity. End of statement."

Mr. Chairman, this statement represents an Administration position. We do not believe our interests would be served by added public speculation on this matter. At the same time, we believe our interests demand that we work with the Government of Panama to ensure the fullest cooperation on such important matters as narcotics control.

We have much to do in Panama that is yet unfinished. We have been positively impressed by President Delvalle's accomplishments of the last few months. His ability to move economic reform legislation which had stymied his predecessor is one measure of this progress. Another encouraging action, as Ambassador Davis' statement notes, especially with regard to the subject of these hearings, is the agreement to resume discussions with the United States next week on a Mutual Legal Assistance Treaty. Such a treaty, if concluded and implemented, would facilitate cooperation by our law enforcement authorities in dealing with the problem of money laundering. We intend to work closely with president Delvalle in these efforts and others which will, in addition to their own merits, have the positive by-product of strengthening the Presidency and civilian political control.

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### Testimony of Deputy Assistant Secretary Mark Dion, Bureau of International Narcotics Matters, Department of State

Mr. Chairman, the Bureau of International Narcotics Matters will focus its testimony today on narcotics production and trafficking issues which are our shared concerns with the Government of Panama.

Panama's principal involvement in the narcotics trade is in the transshipment of cocaine and marijuana from South America to the United States and in the laundering of narcotics profits. Panama is also a source country for marijuana, and a transit route for precursor chemicals destined for cocaine laboratories.

Let me note at the outset that Panama has invited the United States delegation to return to Panama on June 23 to resume discussions on a mutual legal assistance treaty, which we hope will become the vehicle for curbing the laundering of illicit drug profits through Panamanian banks.

MONEY LAUNDERING

Panama's role as a major money laundering center in the Caribbean basin is of particular importance to our bilateral relations because of its suspected dimensions and because it is one aspect of narcotics control cooperation where least progress has been made to-date.

Panama's role as a major money laundering center in the Caribbean basin is of particular importance to our bilateral relations because of its suspected dimensions and because it is one aspect of narcotics control cooperation where least progress has been made to-date.

One hundred twenty banks operate in Panama with deposits of over $30 billion. Panama's attraction is based on its favorable financial conditions, notably exemption of profits earned outside Panama from local taxation. In addition, Panama has strict banking secrecy laws, corporations can be set up with ease, and the U.S. dollar is the country's currency. These factors make Panama an ideal location for laundering the proceeds of the illegal narcotics trade. Most of this money enters Panama in bulk cash and departs via electronic transfer, often within 24 hours of deposit. A self-policing system devised by the Banking Association to regulate cash deposits in excess of $10,000 produced some results in 1985 but has had little impact thus far on money laundering operations.

U.S. and Panamanian negotiators met for the first time in May 1985 to discuss a possible Mutual Legal Assistance Treaty (MLAT) to deal with the money laundering issue. To date, discussions can only be described as introductory and exploratory. The U.S. team was unable to attend the second scheduled meeting in July because of other commitments. Since early September we have been urging the GOP to agree on a new date for discussions. We have, as noted, just received a positive response and a resumption of talks is scheduled on June 23. Unitl an MLAT is agreed on, we expect money laundering to remain our primary bilateral narcotics issue with Panama.

NARCOTICS PRODUCTION AND ERADICATION

The climate and terrain of Panama provide areas suitable for the cultivation of marijuana. Production is estimated at about 400–500 hectares of marijuana, primarily in the Perlas Islands in the Gulf of Panama. Joint eradication operations, using INM-supplied aircraft led to destruction of about half of the fall 1985 crop. The crop was sprayed again in January 1986, and Panama has requested our assistance for a third aerial eradication campaign later this year. There are some isolated fields of coca in Darien Province near the Columbian border, but they seem to be experimental rather than commercial at this time.

Due to the relatively small size of the Panamanian marijuana crop, it is believed that almost complete eradication is possible. It remains to be seen whether or not the marijuana crops will expand further on the mainland with successful eradication on the islands.

Based on aerial observations of crop size and on previous spaying experience, we estimate that nearly all of the crop can be destroyed in one to two years of spraying.

INTERDICTION AND ENFORCEMENT

Panama serves as a transfer point for narcotics (mostly cocaine and marijuana) moving from South America to the U.S. and chemicals used in narcotics processing passing from the U.S. and Europe to South America. Narcotics arrive in Panama in light planes and small coastal vessels and are transferred to other aircraft or vessels for shipment to the United States. The narcotics are sometimes warehoused in Panama prior to onward shipment.

Although Panamanians are involved in trafficking, and corruption is reportedly a factor, most of the actual trafficking is carried out by nationals of other countries, especially Colombians and Bolivians. Panamanian authorities have been cooperative in permitting U.S. Coast Guard vessels to search and seize Panamanian-registered vessels suspected ot carrying drugs.

In February 1985, Spanish officials arrested Colombian drug traffickers Jorge Ochoa and Gilberto Rodriguez Orjuela. Rodriguez Orjuela was the majority owner of the First Inter-Americas bank in Panama through which he laundered the proceeds of his illegal trade. Panamanian authorities intervened in the Bank under Cabinet decree 283 of 1970 which states that banks, their directors, officers and employees must maintain a good reputation for the integrity of their operations. Rodriguez Orjuela has been imprisoned in Spain awaiting a decision on his extradition requested by both Colombia and the United States. The First Inter-Americas Bank remains

under the control of the banking Commission, which oversees the liquidation of assets. The intervention represents the first major action taken by GOP authorities against a money laundering operation.

In September, the Panama Defense Forces, with INM assistance, began a comprehensive effort to eradicate marijuana cultivation through the aerial spraying of herbicides. The program began in the major growing area, the Perlas Islands in the Pacific Ocean south of Panama City. The operation resulted in the eradication of 517 acres (210 hectares) in five days of spraying. Aerial reconnaissance of the islands and mainland Panama as part of the eradication program led to a revision upward in estimated marijuana cultivation to about 400–500 hectares.

ORGANIZATIONAL ASPECTS

Panama's anti-narcotics program centers on improving the capability of law enforcement agencies to deal with narcotics interdiction on a country-wide basis as well as on eradication of marijuana cultivation. Panama seeks U.S. assistance to carry out these programs.

In 1983 the GOP initiated a coordinating group for narcotics enforcement. Its work has been hampered by poor communications and transportation facilities. The U.S. is helping to develop an improved communication system and has provided some assistance in transportation. We have also provided technical support in the form of satellite navigation equipment to the Panamanian navy to improve its ability to work with us on joint operations at sea.

Administration Legal System.

*Legal System:* Few traffickers are sentenced to meaningful jail terms upon conviction, and reports of corruption among some judicial authorities are common. Most foreigners, including Americans, are deported after a short stay in jail. Many of those arrested never actually come to trial, as pre-trial confinement periods aften run up to several months.

The principal Panamanian law regarding the possession, use, and trafficking of narcotic drugs is Law No. 59 of June 1941 as subsequently amended. Decree No. 478 of October 24, 1973, created the National Commission for Control of Depressants and Psychotropic Substances. This Commission proposes uniform criteria for the various Government institutions, formulates policy, and organizes, coordinates and supervises programs of all phases of drug use, handling and trafficking, both licit and illicit.

Cannabis indica, grown in Panama and known locally as can-yac, is covered separately under Law No. 23 of February 15, 1954. Users are to be sent to rehabilitation centers administered by the central Government. Bail is not permitted to violators. This law is not invoked frequently today.

The Directorate General of Public Health is legally responsible for regulating the medical, dental, and veterinary professions. The Department regulates legal importation, handling, and distribution of stimulants, depressants, and narcotics, and patented products containing any of these. This includes prescriptions; licenses; registration of prescribers and distributors; record keeping by pharmacies, drug stores and pharmaceutical houses; and storage of these substances.

On paper, the Panamanian system is capable of prosecuting all phases of narcotics trafficking with the exception of money laundering. The law governing banking secrecy makes it difficult, if not impossible, to identify and prosecute major money launderers. Sensitivity to the opinion of the important banking sector has made it difficult to deal with this issue.

*Law Enforcement.*—The Panama Defense Forces (PDF) serve as the umbrella organization for all law enforcement in Panama, although some responsibility for narcotics related enforcement activity is vested in other Government agencies as well. Those involved in enforcement include:

(A) G–2 Narcotics Section of the PDF.

The G–2 staff handles all national-level intelligence and investigations. It investigates all major crimes, prepares evidence and documents and holds prisoners to be turned over the prosecuting attorney for legal proceedings. G–2 is divided into functional sections, including a narcotics enforcement international liaison officer.

(B) National Department of Investigations (DENI).

The DENI tends to concentrate on less important seizures, arrests, and investigations. It is composed of various offices responsible for security and Interpol affairs, including Omar Torrijos International Airport, narcotics, fugitives, investigations, and criminal lab work.

(C) Customs and Narcotics Section of the Ministry of Finance.

This section operates at ports of entry. Some consider it the most professional of the narcotics agencies and it is credited with the majority of seizures of drugs destined for the United States.

(D) Pharmacy, Drug and Food section of the Department of Health.

This section has regulatory responsibility for control of importation, exportation and distribution of licit controlled substances but it is seriously undermanned.

### OTHER NARCOTICS RELATED MATTERS

*Treaties and International Agreements.*—Panama is a signatory to the 1961 Single Convention on Narcotic Drugs and the 1971 Psychotropic Substances Convention. It is a member of the United Nations Commission on Narcotic Drugs.

Panama has engaged in preliminary discussion with the U.S. Government concerning measures to improve the level of legal cooperation on narcotics matters. These include a proposed Mutual Legal Assistance Treaty. Panama signed an extradition treaty with the United States on May 25, 1904. This treaty included no provision for drug law violators. Panama has, however, expelled persons to the United States on a case-by-case basis.

*Training.*—Panama has no organized training program but is working towards the establishment of its own narcotics training facility. U.S. training of Panamanian investigative agents is aimed at the formation of a staff of competent instructors in drug enforcement techniques.

*Domestic Drug Abuse.*—Panama's drug abuse problem centers on the use of marijuana, cocaine and paint thinner. Marijuana is the most extensively used drug, and is grown locally and imported from Colombia. Cocaine abuse in Panama is increasing. Colombia is the major source country for cocaine consumed in Panama. The main consumers are believed to be Panamanian youth as well as Americans living in Panama.

Other dangerous drugs are in less demand. Barbiturates, amphetamines, and tranquilizers are easily obtained over-the-counter at most drug stores.

As yet, there has been no major effort on the part of the Panamanian Government to institute a program of drug rehabilitation and prevention of drug abuse. Community groups, such as the Lions Club and the Cruz Blanca, speak out on what they perceive as a growing use of drugs among urban youth and have protested official inaction. No coordinated program with allocated resources has been established as yet, however.

*Production of Licit Narcotics.*—Panama is not a major producer of licit narcotics. Phenobarbital and demerol are perpared locally under license and control of the Health Ministry's Department of Pharmaceutics. There are no indications that these drugs are being diverted for illicit sale.

### PANAMANIAN PERCEPTION OF ILLEGAL NARCOTICS ACTIVITIES

The Government is aware that Panama is becoming the focal point both of transit of illegal drugs from South America and of the ever-growing laundering of proceeds from drug sales. In addition, the local use of marijuana and cocaine seems to be on the upswing. The Government wishes to project an image of Panama as a safe and respectable place for international trade and investment. Inasmuch as drug trafficking tarnishes that image, Panamanian officials are strongly opposed to it and are willing to cooperate extensively with U.S. authorities to hinder the drug trade. Panamanian public awareness of their country's role in the international drug trade seems to be increasing as well. Local newspaper coverage of narcotics-related arrests has expanded.

Public awareness of drug abuse within Panama itself seems to be growing. Marijuana, traditionally used by Indian populations living along the Caribbean coast, is increasingly to be found among urban youth. Cocaine is beginning to become fashionable among the middle and upper classes.

### U.S. NARCOTICS ASSISTANCE

Panama received $204,000 in FY 1985 and $90,000 to-date in FY 1986 to conduct its aerial eradication campaign against marijuana. It is estimated that $100,000–200,000 will be required annually to continue the effective crop eradication programs begun in FY 1985.

### SUMMARY

In conclusion, Panama has cooperated effectively with the United States on marijuana eradication, interdiction, and ship boardings on the high seas. We hope to see

improvement in seizures of cannabis, cocaine and precursor chemicals. The litmus test, however, will be the degree of cooperation we receive on money laundering, and on the arrest, conviction and incarceration of traffickers.

We will continue to advise the Congress on progress made in all of these areas.

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PREPARED REMARKS OF DAVID D. QUEEN, DEPUTY ASSISTANT SECRETARY (ENFORCEMENT), DEPARTMENT OF THE TREASURY

Mr. Chairman, the Treasury Department is pleased to have this opportunity to appear before you to address the issue of international drug trafficking, narcotics related money laundering and other activities associated with the illicit narcotics trade.

In the past decade illegal drug trafficking has increased dramatically, with a corresponding increase in crimes associated with it. President Reagan has identified the interdiction of illegal drugs as one of the major priorities of this administration. In support of this commitment the United States has allocated substantial law enforcement and prosecutorial resources to impede the flow of drugs and moneys associated with this illegal activity across our borders. As you may be aware, the Treasury Department and its law enforcement agencies has taken an equally firm stand to put narcotics interdiction squarely at the top of our international law enforcement agenda. We have repeatedly stated in every available forum that drug trafficking is a problem that cannot be solved by any one person, agency or Government. It must be attacked on all fronts and with every tool at our command, including the cooperation and assistance of our allies.

Treasury has primary responsibility for enforcing the "Bank Records and Foreign Transactions Act", commonly referred to as the "Bank Secrecy Act." The Act authorizes the Secretary of the Treasury to require certain reports and records where they are unlikely to have a high degree of usefulness in criminal, tax or regulatory investigations or proceedings. Under the Act, Treasury is responsible for monitoring the flow of currency in and out of the United States through the use of the reporting requirements. In addition, this law permits us to monitor and require the reporting of large cash transactions at domestic financial institutions.

Our experience in this area indicates that illegal drug trafficking, and the money laundering associated with it, requires the use of sophisticated financial arrangements involving the movement of large sums of cash. In many instances the financial institutions and systems that are used for these activities have no knowledge that they are being used to launder money.

Early in 1983, the Treasury Department became aware of an unusual flow of U.S. currency from the Banco Nacional de Panama (National Bank of Panama) to the Federal Reserve Bank offices in New and Miami. Based on the data we were able to compile, it revealed that from 1980 through 1984 approximately $3.5 billion (primarily small bills) was shipped from Panama to the United States. In contrast the Federal Reserve Banks shipped to Panama $500 million in replacement currency during the same period, showing an immense cash surplus. Although U.S. Government agencies had received information for a number of years indicating that major drug traffickers or money launderers were using Panamanian banks or shell corporations to conceal their financial transactions, we were previously unaware of the magnitude and growth of the transactions being channeled through Panama.

Although our most recent data indicates the currency flow from the Banco Nacional de Panama appears to have decreased, it is still running at a very high level. It is our belief, based on data from the Forms 4789 (Currency Transaction Report—IRS) and 4790 (Currency & Monetary Instruments Report—Customs) filed with us, that much of this money is from illegal activities, mainly drug trafficking.

Panama is particularly vulnerable to money launderers for two reasons: geography and its banking system. Geographically Panama is the crossroad between the two continents, North and South America. With the exception of Mexican marijuana and heroin, which are produced adjacent to its market, Central America and the many islands in the Caribbean provide the bridge traveled by Latin American drugs en route to markets in the United States and Europe.

In the opposite direction a stream of money flows back to reimburse participants at the various stages of the production and trafficking process and to pay for the equipment and protection needed to move the various products to their destinations.

The flow pattern of drug money is motivated by many of the same considerations that govern the disposition of other liquid assets. Like legitimate money, narco-dollars tend to seek the highest rate of return and the lowest rate of taxation consistent with other considerations, such as secrecy and the ease to which narco-dollars

may be disguised as legitimate dollars. While Panama is smaller geographically and in population than the State of New Jersey, it has over a 123 banks operating within its borders, and can justifiably proclaim itself the major financial center for Latin America. Approximately 70 of these financial institutions are associated with 26 foreign countries, including: U.S.—14, Japan—9, France—6, Switzerland—5, Canada—3, Columbia—2, etc. The facilities through which narco-dollars may be laundered or disguised as legitimate dollars are abundant.

A common hazard shared by drug traffickers is fluctuation in the relative value of currencies. Since the most likely exchange rate movement is devaluation of nonconvertible currency, traffickers try to hold their funds in hard currency (preferably U.S. dollars) as long as possible. The balboa, the Panamanian unit of currency, is at par with and equivalent to the U.S. dollar. Panama issues no paper currency. The U.S. dollar serves as the circulating medium of paper currency, making it almost impossible to segregate narco-dollars from legitimate dollars.

Drug money movements are susceptible to special problems. Like illicit drugs, narco-dollars are a form of contraband, which places an exceptionally high premium on secrecy of movement. It is no secret that Panama has perhaps the most stringent bank secrecy laws of any country in the region. Indeed, much of its successs as a banking center is directly attributable to the strict confidentiality inherent in its bank secrecy laws and numbered accounts which are major ingredients in the system.

While the picture I have painted may appear somewhat dismal, I am pleased to report that we are engaged in discussions aimed at addressing these problems. During my tenure as Deputy Assistant Secretary I have had the opportunity to discuss this problem with my law enforcement colleagues at Justice and State, and our counterparts within the Government of Panama. The Panamanians have built a record of informal cooperation and assistance to the United States in law enforcement matters (e.g. extradition, search and seizure of Panamanian flag-ships, etc.). It is clear that illegal drug trafficking has important implications for the national interests of our respective countries. I believe this concern is shared by civilian officials at the highest level of the Panamanian Government with whom we have dealt. Building on the tradition of informal law enforcement cooperation that Panama has established, I am hopeful that as our discussions continue the United States and Panama will be able to develop a framework through this problem may be addressed.

This concludes my formal remarks, I would be pleased to address any question the Committee may have.

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STATEMENT OF THOMAS V. CASH, DEPUTY ASSISTANT ADMINISTRATOR, OPERATIONS DIVISION

Mr. Chairman, Members of the Committee, I am pleased to appear before you today to discuss international drug trafficking as it relates to the country of Panama.

There has been progress made this past year in several aspects of the drug situation in Panama, and I appreciate having this opportunity to discuss these and other significant drug trafficking matters in Panama. Before describing the drug situation in Panama, I would like to briefly explain DEA's role in the international area.

The Drug Enforcement Administration is responsible for the investigation and preparation for prosecution of major violators of controlled substances laws operating at interstate and international levels, and the management of a national narcotics intelligence system in cooperation with Federal, State, local and foreign officials. DEA is also responsible for ensuring that legitimately produced pharmaceutical products are not diverted into the illegal drug market. Our criminal investigators and diversion investigators work not only in the United States, but in select international areas, as well.

In addition, DEA shares responsibility for the coordination and cooperation with other Federal, State, and local agencies, and with foreign governments in programs designed to reduce the availability of illicit drugs of abuse on the United States market through nonenforcement methods, such as crop eradication, crop substitution, and training of foreign officials. Under the policy guidance of the Secretary of State and U.S. Ambassadors, DEA shares responsibility for all programs associated with drug law enforcement counterparts in foreign countries.

The Drug Enforcement Administration acts as liaison with the United Nations, Interpol, and other organizations on matters relating to international narcotics control program. DEA works closely with the State Department on international liai-

son, and with the Federal Bureau of Investigation, the Customs Service, the Coast Guard, and several other Federal agencies on numerous international operations.

As you have requested, I would now like to talk about the role of Panama in international narcotics trafficking.

## OVERVIEW

Panama sits at the crossroads of the Americas. Because of its geographic position, Panama has developed an economy that focuses on international commerce and the transit trade. Trade is centered around the Panama Canal, especially in the capital, Panama City, and in Colon. It is reported that major trafficking organizations are increasingly using Panama as a transshipment and a negotiations center, since the large amounts of legitimate transiting traffic and international firms can act as covers for narcotics-related business.

Panama's role in international narcotics traffic revolves around four issues:

The use of Panamanian banks to launder narcotics-related profits, mostly from third countries.

The use of Panama as a transit country for narcotics en route from South America to the United States.

The use of Panama as a transit country for precursor materials, mainly ether, which is used in the production of cocaine hydrochloride.

Local cultivation of marijuana.

## MONEY LAUNDERING

One of Panama's chief industries is international banking. In a country slightly larger in territory than West Virginia, with a population of only about 2 million, Panama has over 120 different banking institutions and is the most important Eurobanking center in Latin America.

Panama is attractive to the banking industry because it has strict bank secrecy laws that protect customers against account disclosure; corporations can be set up with ease without government regulation; and the United States dollar is the currency. These factors make Panama an attractive location for laundering the proceeds of the illegal narcotics trade without the slightest risk of discovery. Favorable taxation provisions are another major incentive for locating banks in Panama.

The Panamanian banking law specifically authorizes numbered and coded bank accounts. It allows the use of pseudonyms on bank accounts and imposes criminal penalties for the unauthorized disclosure of bank account information.

The National Bank of Panama serves as a clearinghouse for U.S. dollars for banks operating in Panama. Much of the laundered drug money that enters Miami is believed to come from or through Panama. The United States Department of the Treasury estimates from 1983, based upon deposits with the Federal Reserve of excess cash collected by the National Bank of Panama, indicate that more than $600 millioni may be laundered through Panama annually.

In May 1985, United States and Panamanian negotiators met to discuss a possible Mutual Legal Assistance Treaty (MLAT) whereby the United States could obtain information on bank accounts belonging to drug traffickers. The last round of talks ended early last summer without any progress on the matter, and we have been unsuccessful in getting Panama to schedule new talks.

There is considerable resistance in Panama to any lifting of the bank secrecy laws, even to deal with the laundering of money from narcotics. It is likely that the Panamanians fear that removing any of the secrecy and security of bank accounts would cause a widespread withdrawal of money from the banks. Therefore, any further discussion of the MLAT needs the support of the private bankers who want the secrecy provisions of the law to continue.

In an attempt at self-policing, the Panamanian Banking Association has adopted a code of ethics for its members designed to discourage financial transactions that appear to be linked to drug trafficking. Provisions of the code place a limit of $100,000 on cash transactions unless there is a satisfactory explanation; prohibit banking relations with persons known to be involved in the illegal drug trade; and require proof of identity for new account holders.

Violation of the Code of Ethics would lead to expulsion from the banking association, which would not prevent the bank from continuing to operate in Panama, but would damage its reputation. Unfortunately, there are inadequate provisions for investigating or enforcing the aspects of this code.

Panama did intervene in one recent bank seizure. In November 1984, Spanish officials arrested Colubian drug traffickers Jorge Ochoa and Gilberto Rodriguez Orjuela. Rodriguez Orjuela was the majority owner of the First Inter-Americas Bank

in Panama through which he laundered the proceeds of his illegal drug trade. Panamanian authorities intervened in the Bank under Cabinet decree 283 of 1970, which states that banks, their directors, officers, and employees must maintain a good reputation for the integrity of their operations.

Rodriguez Orjuela has been imprisoned in Spain awaiting a decision on requests for his extradition by Colombia and the United States. The First Inter-Americas Bank remains under the control of the banking commission, which oversees the liquidation of assets. This intervention represents the first major action taken by Panamanian authorities against a money laundering operation.

### TRANSIT COUNTRY FOR NACROTICS AND PRECURSOR MATERIALS

Panama serves as a transfer point for narcotics—mostly cocaine and marijuana—moving from South America to the United States, and for chemicals used in narcotics processing passing from the United States and Europe to South America. Traffickers go through Panama City, as well as the Free Zone of Colon. Narcotics are somtimes stored in warehouses in Panama prior to onward shipment.

Although Panamanians are involved in trafficking, most of the actual trafficking is carried out by nationals of other countries, especially Colombians and Bolivians.

Marijuana most often comes through Panama from Colombia via light planes and small coastal vessels, and it transferred to other aircraft or small vessels for shipment to the United States. It is believed that Panama is becoming a base for commercial vessels involved in smuggling multi-ton loads of marijuana, specifically through the Port of Colon on the Atlantic coast and, to a lesser degree, through Panama City on the Pacific coast.

Panama is used as both a transshipment and staging area for cocaine en route primarily from Colombia to the United States and European markets. Cocaine is smuggled through Panama via commercial or private vessel or airplane to several destinations, such as Mexico, Canada, and Europe, but primarily to the United States. Some of the more common smuggling methods involve couriers using a body pack or false-bottomed suitcase.

Panama is also a transshipment point for precursor chemicals, particularly ether, passing from the United States and Europe to South America. At the request of DEA on various occasions over the past few years, Panamanian authorities have seized and destroyed large shipments of precursor chemicals. Two seizures of 40 tons of acetone were made recently, attesting to Panama's commitment to interdict such material.

The control of chemicals essential to manufacture drugs such as cocaine requires the cooperation of many nations. For several years, DEA has spearheaded Operation Chem Con to reduce the availability of essential chemicals, primarily ethyl ether that is used in the illicit manufacture of cocaine hydrochloride.

After Colombia banned the importation of ethyl ether to Colomobia, the price of black market ether rose dramatically. A 55-gallon drum of ethyl ether that previously sold to traffickers for between $180–200 a barrel now costs at least $8,000 a barrel in Colombia. Stopping these precursors in Panama and other transshipment countries has helped reduce the manufacture of cocaine hydrochloride.

Panama has also been used by Colombian traffickers as a transshipment point for bulk methaqualone being shipped to Colombia from Europe and Asia. At the urging of DEA's Panama County Office, Panamanian authorities have initiated a vigorous campaign at the ports of entry and the Colon Free Trade Zone to detect and seize these shipments.

Part of Panama's anti-narcotics program centers on improving the capability of law enforcement agencies to deal with narcotics interdiction on a country-wide basis. Panama seeks United States assistance to carry out these programs.

In 1983, the Government of Panama initiated a coordinating group for narcotics enforcement. This group, thus far, has been hampered by poor communications and transportation facilities. The United States is helping to develop an improved communication system and has provided some assistance in transportation.

### MARIJUANA ERADICATION

The climate and terrain of Panama provide areas suitable for the cultivation of marijuana. The primary growing areas are on Las Perlas Islands, located in the Gulf of Panama. Estimates of total marijuana cultivation in Panama range from 400–500 hectares with an estimated yield of one metric ton per hectare. The cultivation does not appear to be expanding.

In September 1985, the Panama Defense Forces, with assistance from the U.S. Department of State's Bureau of International Narcotics Matters, began a comprehen-

sive effort to eradicate marijuana cultivation through the aerial spraying of herbicides. The operation resulted in the eradication of 210 hectares in five days of spraying.

Due ot the relatively small size of the Panamanian marinuana crop, it is believed that almost complete eradication is possible. Panama plans to repeat its spraying operation in early 1986 to destroy replanted fields and will repeat the operation next fall.

EXTRADITION

With regard to DEA fugitives, Panamanian authorities have been very cooperative in expelling directly to the United States the fugitives caught in Panama, provided they are not Panamanian citizens. Since Panama is a crossroads country, a disproportionate number of our fugitives appear in Panama, thus, Panama's policy on this matter works to the benefit of the United States.

CONCLUSION

In conclusion, I believe that in this past year genuine progress has been made in the eradication of cannabis cultivation in Panama. We are encouraged that the government intends to continue this eradication effort. There is evidence that Panama is making a genuine effort to better coordinate its interdiction capabilities, and Panama has already demonstrated support by seizing shipments of precursor chemicals and methaqualone.

The Government of Panama is aware that the country is increasingly the focal point both of transit of illegal drugs from South America and of the ever-growing laundering of proceeds from drug sales. In addition, the local use of marijuana and cocaine seems to be on the upswing.

The Panamanian government wishes to project an image of Panama as a safe and respectable place for international trade and investment. Inasmuch as drug trafficking tarnishes that image, Panamanian officials are strongly opposed to drug trafficking and are willing to cooperate extensively with U.S. authorities to hinder the drug trade. Panamanian public awareness of their country's role in the international drug trade seems to be increasing as well.

We would, however, like more cooperation in the area of money laundering. In addition to giving the United States access to bank records, we would like to see Panama strengthen its drug enforcement program by enhancing local prosecution of significant traffickers. As in many Latin American countries, very few significant drug traffickers are prosecuted in the local courts.

Mr. Chairman, I appreciate this Committee's interest in Panama's role in international narcotic trafficking. I will be pleased to answer any questions you may have.

Thank you.

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[Submissions for the Record]

[Select Committee on Narcotics Abuse and Control—Background Document]

PANAMA

Panama because of its geographic position on both the air and sea routes from South America to North America and its free port facilities has historically been a hub for contraband smuggling, including narcotics.

Panama is a transfer point for cocaine and marijuana moving from South America to the United States and for the chemicals required for cocaine manufacture from the United States and Europe to South America.

Marijuana and cocaine arives in Panama in light aircraft and small coastal vessels for transfer to other aircraft and vessels for smuggling to the United States. Occasionally the narcotics are stored in Panama prior to onward shipment. Reports indicate that criminal elements and corruption in Panama makes this activity possible, however, most of it is carried out in Panama by Colombian and Bolivian traffickers.

Panama has long been a world major banking center and has one hundred twenty banks. Favorable tax, bank secrecy and corporate laws and the fact the U.S. dollar is the currency, make Panama an ideal center for the laundering of international narcotic trafficking proceeds.

Panama produces about 500 hectares of marijuana and the authorities report in 1985 about half of this was destroyed via aerial spray eradication. Plans have been reported for an increased utilization of this technique during 1986.

RECOMMENDATIONS

1. Panama continues to have the potential to increase its role as a transit center for South American cocaine and as an illicit manufacturer of cocaine and grower of coca. The Governments of Panama and the United States must exercise constant vigilance in this regard.

The narcotic threat Panama poses to the United States will only abate when the uncontrolled production and traffic of coca and cocaine in South America is brought under control.

2. While the bank secrecy laws in Panama invite money laundering and make it extremely difficult to investigate and utilize money transfers through Panamanian banks as evidenced in the prosecution of narcotic violations and to trace, seize and forfeit their monetary or property assets the U.S. drug enforcement efforts with the Panamanian authorities on overcoming this problem leaves much to be desired.

When Colombian nationals, Jorge Ochea and Gilberto Rodriguez Orjuela, were identified as drug traffickers and as the majority owners of the First Inter-Americas Bank in Panama and as using it to launder drug trafficking proceeds, Panamanian authorities intervened on the basis of a decree which requires that banks, their directors, officers and employees must maintain a good reputation. The bank was placed under the control of the banking commission.

Panama is not the first country with bank secrecy laws where banks have been used to facilitate narcotic trafficking. Narcotic trafficking is a heinous and sordid crime against which almost all the world's governments have bound themselves to assist each other in suppressing it. It is the experience of this committee that whenever evidence can be produced that narcotic violators are using a bank in a country with bank secrecy the authorities will take steps to end that utilization if the individuals are indicted or convicted.

The DEA under the provision of Article 35 of the Single Convention on Narcotic Drugs of 1961 and Article 21 of the Convention on Psychotropic Substances of 1971 should in major international narcotic conspiracy investigations in concert with the U.S. Attorneys Office and Grand Juries increase efforts to provide Panamanian authorities with any evidence they obtain relative to the utilization of any Panamanian banks in furtherance of narcotic trafficking activity. Countries where bank secrecy is the law or the tradition, such as Panama, take the position that secrecy is for business and financial purposes, not to further criminal activity such as narcotic trafficking nor is secrecy intended to protect narcotic traffickers.

This Committee is convinced that presented with sufficient evidence through the appropriate channels as to the utilization of Panamanian banks for narcotic trafficking purposes, the Government of Panama will take corrective action.

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[Excerpts From International Narcotics Control Strategy Report, Feb. 1, 1986]

(Source: U.S. Department of State)

PANAMA

*A.1. Status of Illicit Narcotics Production and Trafficking.*—Panama's principal involvement in the narcotics trade is in the transshipment of drugs from South America to the United States and in the laundering of narcotics profits.

Narcotics production is estimated at about 400–500 hectares of marijuana cultivation, primarily in the Perlas Islands in the Gulf of Panama. However, aerial eradication destroyed about half of this fall 1985 crop. There are some isolated fields of coca near the Colombian border, but they seem to be more experimental than commercial.

Panama serves as a transfer point for narcotics (mostly cocaine and marijuana) moving from South America to the U.S. and chemicals used in narcotics processing passing from the U.S. and Europe to South America. Narcotics arrive in Panama in light planes and small coastal vessels and are transferred to other aircraft or vessels for shipment to the United States. The narcotics are sometimes warehoused in Panama prior to onward shipment.

Although Panamanians are involved in trafficking, and corruption is reportedly a factor, most of the actual trafficking is carried out by nationals of other countries, especially Colombians and Bolivians. Panamanian authorities have been cooperative

in permitting U.S. Coast Guard search and seizure of Panamanian-registered vessels suspected of carrying drugs.

Of particular importance is Panama's role as a major money laundering center in the Caribbean area. One hundred twenty banks operate in Panama with deposits of over $30 billion. These banks are attracted to Panama because of favorable financial conditions, notably exemption of profits earned outside Panama from local taxation. In addition, Panama has strict banking secrecy laws, corporations can be set up with ease, and the U.S. dollar is the currency. These factors make Panama an attractive location for laundering the proceeds of the illegal narcotics trade. Most of this money enters Panama in bulk cash and departs via electronic transfer, often within 24 hours of deposit. A self-policing system devised by the Banking Association to regulate cash deposits in excess of $10,000 produced some results in 1985 but has had little impact thus far on money laundering operations.

*A.2. Accomplishments in 1985.*—There were three major events in 1985; the seizure in March of the First Inter-Americas Bank, which was owned by drug traffickers; the opening of bilateral negotiations on a Mutual Legal Assistance Treaty (MLAT); and the aerial eradication program which destroyed perhaps half of the marijuana growing in Panama in that time.

In February, Spanish officials arrested Colombian drug traffickers Jorge Ochoa and Gilberto Rodriguez Orjuela. Rodriguez Orjuala was the majority owner of the First Inter-Americas Bank in Panama through which he laundered the proceeds of his illegal trade. Panamanian authorities intervened in the Bank under Cabinet decree 283 of 1970 which states that banks, their directors, officers and employees must maintain a good reputation for the integrity of their operations. Rodriguez Orjuela has been imprisoned in Spain awaiting a decision of requests for his extradition by Colombia and the United States. The First Inter-Americas Bank remains under the control of the banking committee, which oversees the liquidation of assets. The intervention represents the first major action taken by GOP authorities against a money laundering operation.

In late May, U.S. and Panamanian negotiators met for the first time to discuss a possible Mutual Legal Assistance Treaty (MLAT) to deal with the money laundering issue. To date, the discussions must be considered introductory and explanatory. The U.S. team was unable to attend the second scheduled meeting in July because of other commitments. Since early September we have been urging the GOP to agree on a new date for resumption of discussions, but without a concrete response so far. Until an MLAT is agreed on, we expect money laundering to remain our primary bilateral narcotics issue with Panama.

In September, the Panama Defense Forces, with INM assistance, began a comprehensive effort to eradicate marijuana cultivations through the aerial spraying of herbicides. The program began in the major growing area, the Perlas Islands in the Pacific Ocean south of Panama City. The operation resulted in the eradication of 517 acres (210 hectares) in five days of spraying. Aerial reconnaissance of the islands and mainland Panama as part of the eradication program led to a revision upward in estimated marijuana cultivation to about 400–500 hectares.

*A.3. Plans, Programs and Timetables.*—Panama's anti-narcotics program centers on improving the capability of law enforcement agencies to deal with narcotics interdiction on a country-wide basis and eradication of marijuana cultivation. Panama seeks U.S. assistance to carry out these programs.

In 1983 the GOP initiated a coordinating group for narcotics enforcement. This group has been hampered by poor communications and transportation facilities. The U.S. is helping to develop an improved communication system and has provided some assistance in transportation. We have also provided technical support in the form of satellite navigation equipment to the Panamanian navy to improve its ability to assist in joint operations at sea.

Following the largely successful marijuana eradication program in September of 1985, the government of Panama repeated the INM-assisted operation again in January 1986 to destroy replanted fields and will repeat the operation in the fall.

*A.4 Adequacy of Legal and Law Enforcement Measures.—Legal system:* Few traffickers are sentenced to significant jail terms upon conviction, and reports of corruption among some judicial authorities are common. Most foreigners, including Americans, are deported after a short stay in jail. Many of those arrested never actually come to trial, as pre-trial confinement periods often run up to several months.

The principal Panamanian law regarding the possession, use, and trafficking of narcotic drugs is Law No. 59 of June 1941 as subsequently amended. Decree No. 478 of October 24, 1973, created the National Commission for Control of Depressants and Psychotropic Substances. This Commission proposes uniform criteria for the various Government institutions, formulates policy, and organizes, coordinates and

supervises programs of all phases of drug use, handling and trafficking, both licit and illicit.

Cannabis indica, grown in Panama and known locally as can-yac, is covered separately under Law No. 23 of February 15, 1954. Users are to be sent to rehabilitation centers, administered by the Central Government. Bail is not permitted to violators. However, this law is not invoked frequently today.

The Directorate General of Public Health is legally responsible for regulating the medical, dental and veterinary professions. The Department regulates legal importation, handling, and distribution of stimulants, depressants, and narcotics, and patented products containing any of these. This includes prescriptions; licenses; registration of prescribers and distributors; record keeping by pharmacies, drug stores, and pharmaceutical houses; and storage of these substances.

On paper, the Panamanian system is capable of prosecuting all phases of narcotics trafficking with the exception of money laundering. The law governing banking secrecy makes it difficult, if not impossible, to identify and prosecute major money launderers. Sensitivity to the opinion of the important banking sector has made it difficult to deal with this issue.

*Law Enforcement:* The Panama Defense Forces (PDF) serve as the umbrella organization for all law enforcement in Panama, although some responsibility for narcotics related enforcement activity is vested in other Government agencies as well. Those involved in enforcement include:

(A) G–2 Narcotics Section of the PDF:

The G–2, staff handles all national-level intelligence and investigations. It investigates all major crimes, prepares evidence and documents and holds prisoners to be turned over the prosecuting attorney for legal proceedings. G–2 is divided into functional sections, including a narcotics enforcement international liaison officer.

(B) National Department of Investigations (DENI):

The DENI tends to concentrate on less important seizures, arrests, and investigations. It is composed of various offices responsible for security and Interpol affairs, including Omar Torrijos International Airport, narcotics, fugitives, investigations, and criminal lab work.

(C) Customs and Narcotics Section of the Ministry of Finance:

This section operates at ports of entry. Some consider it the most professional of the narcotics agencies and it is credited with the majority of seizures of drugs destined for the United States.

(D) Pharmacy, Drug and Food section of the Department of Health:

This section has regulatory responsibility for control of importation, exportation and distribution of licit controlled substances but it is seriously undermanned.

*Treaties and International Agreements:* Panama is a signatory to the 1961 Single Convention on Narcotic Drugs and the 1971 Psychotropic Substances Convention. It is a member of the United Nations Commission on Narcotic Drugs.

Panama has engaged in preliminary discussion with the U.S. Government concerning measures to improve the level of legal cooperation on narcotics matters. These include a proposed Mutual Legal Assistance Treaty. Panama signed an extradition treaty with the United States on May 25, 1904. This treaty included no provision for drug law violators. Panama has, however, expelled persons to the United States on a case-by-case basis.

*Training:* Panama has no organized training program but is working towards the establishment of its own narcotics training facility. U.S. training of Panamanian investigative agents is aimed at the formation of a staff of competent instructors in drug enforcement techniques.

*A.5. Domestic Drug Abuse.*—Panama's drug abuse problem centers on the use of marijuana, cocaine and paint thinner. Marijuana is the most extensively used drug, and is both grown locally and imported from Colombia. However, cocaine abuse in Panama is increasing. Colombia is the major source country for cocaine consumed in Panama. The main consumers are believed to be Panamanian youth as well as Americans living in Panama.

Other dangerous drugs are in less demand. Barbiturates, amphetamines, and tranquilizers are easily obtained over-the-counter at most drug stores.

As yet, there has been no major effort on the part of the Panamanian Government to institute a program of drug rehabilitation and prevention of drug abuse. Community groups, such as the Lions Club and the Cruz Blanca, speak out on what they perceive as a growing use of drugs among urban youth and have protested official inaction. However, no coordinated program with allocated resources has been established.

*B.1. Nature of Illicit Drug Production.*—Panama's role in international narcotics traffic revolves around four issues:

(1) The use of Panamanian banks to launder narcotics related profits mostly from third countries;

(2) The use of Panama as a transit country for narcotics enroute from South America to the United States;

(3) The use of Panama as a transit country for precursor materials, mainly ether, which is used in the production of cocaine hydrochloride; and

(4) Local cultivation of marijuana.

A. Production of Licit Narcotics:

Panama is not a major producer of licit narcotics. Phenobarbital and demerol are prepared locally under license and control of the Health Ministry's Department of Pharmaceutics. There are no indications that these drugs are being diverted for illicit sale.

B. Production of Illicit Narcotics:

The climate and terrain of Panama provide areas suitable for the cultivation of marijuana. The primary growing areas are the Pearl Islands located on the Pacific side. Small amounts of coca cultivation also have been seen in Darien Province, but probably constitute "experimental" plots on which part of Colombian traffickers seeking new growing zones which they believe might be less susceptible to detection. Estimates of total marijuana cultivation in Panama range from 400–500 hectares with an estimated yield of one metric ton per hectare.

*B.2. Factors Affecting Production.*—As noted in B.1 above, the tropical climate in Panama is ideal for the cultivation of marijuana and to a lesser extent coca. Such cultivation is not extensive and does not appear to be expanding.

*Panamanian Perception of Illegal Narcotics Activities.*—The Government is aware that Panama increasingly is the focal point both of transit of illegal drugs from South America and of the ever-growing laundering of proceeds from drug sales. In addition, the local use of marijuana and cocaine seems to be on the upswing. The Government wishes to project an image of Panama as a safe and respectable place for international trade and investment. Inasmuch as drug trafficking tarnishes that image, Panamanian officials are strongly opposed to it and are willing to cooperate extensively with U.S. authorities to hinder the drug trade. Panamanian public awareness of their country's role in the international drug trade seems to be increasing as well. Local newspaper coverage of narcotics-related arrests has expanded.

There also seems to be growing public awareness of drug abuse within Panama itself. Marijuana, traditionally used by Indian populations living along the Caribbean coast, is increasingly to be found among urban youth. Cocaine is beginning to become fashionable among the middle and upper classes.

*B.3. Maximum Achievable Reductions.*—Due to the relatively small size of the Panamanian marijuana crop, it is believed that almost complete eradication is possible. Follow-on eradication efforts will in 1986 reduce the area cultivated further. It remains to be seen whether or not the marijuana crops will expand further on the mainland with successful eradication on the islands.

*B.4. Methodology Employed to Determine the Maximum Achievable Reduction.*—Based on aerial observations of crop size and on previous spraying experience, we estimate that nearly all of the crop can be destroyed in one to two years of spraying.

*C.1. Summary Tables.*—

| Cannabis | 1985 | 1986 |
|---|---|---|
| Hectares cultivated | 400–500 | 400+ |
| Hectares eradicated | 210 | 200–300 |
| Hectares harvested | 190–290 | 100–200 |
| Cannabis yield | 190–290 | 100–200 |
| Loss factor | Unknown | Unknown. |
| Cannabis seized in country | No data | No data. |
| Marijuana consumed in-country (MT) | 25 | 25 |
| Marijuana exported to the United States (MT) | 165–265 | 75–175 |

| Data tables | 1987 | 1986 | 1985 | 1984 | 1983 |
|---|---|---|---|---|---|
| Cannabis | | | | | |
| Gross cultivation (hectares) | 100–300 | 200–400 | 400–500 | 400 | 250–400 |
| Gross potential (MT) | 100–300 | 200–400 | 400–500 | 250–400 | 200–400 |
| Hectares eradicated | 200–300 | 200–300 | 210 | 0 | 0 |

| Data tables | 1987 | 1986 | 1985 | 1984 | 1983 |
|---|---|---|---|---|---|
| Crops eradicated (MT) | 200–300 | 200–300 | 210 | 0 | 0 |
| Hectares out | 50 | 50 | 0 | 0 | 0 |
| Crops out (MT) | 50 | 50 | 0 | 0 | 0 |
| New cultivation (hectares) | 100 | 100–200 | 190–290 | 250 | 250 |
| Net production (MT) | 100 | 100–200 | 190–290 | 250 | 250 |
| Seizures (MT): | | | | | |
| Cocaine | | | 0.04 | 0.05 | |
| Marijuana | | | | .09 | 138 |
| Arrests: | | | | | |
| Nationals | | | 217 | 426 | 1,333 |
| Foreigners | | | 118 | 39 | 23 |
| Labs destroyed: Cocaine | 0 | 0 | 0 | 1 | 0 |
| Domestic consumption: No data available. | | | | | |
| Users: No data available. | | | | | |
| Part D (See appendix). | | | | | |

*E. Resource Estimates.*—Panama received $204,000 in FY 1985 and $90,000 to date in FY 1986 to conduct its aerial eradication campaign on marijuana. It is estimated that $100,000–200,000 will be required annually to continue the effective crop eradication programs begun in FY 1985.

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### NORIEGA INVOLVEMENT WITH DRUG TRAFFICKING

While the National Guard has denied any role in drug trafficking, the charge is a recurrent one. Critics of Panama's powerful Defense forces have charged for years that influential officers were selling protection to regional drug traffickers and helping them launder their money through some of the country's more than 125 secretive banks. The suspicions gained momentum in 1984 when the fourth ranking officer in Panama's Defense Forces, Lt. Col. Julian Melo, was cashiered, though never prosecuted, for his links to a cocaine-processing factory discovered in the Panama jungle. Dr. Hugo Spadafora, a strong critic of General Noriega, who charged Noriega with drug trafficking, was brutally murdered September 14, 1985. According to a 1985 assessment of "U.S. Narcotics Control Programs Overseas," published by the House Foreign Affairs Committee, Panama is regarded by American law enforcement officials as a "drug and chemical transshipment point and money-laundering center for drug money." Specific charges are now being made alleging General Noriega's personal involvement in drug trafficking.

| Source | Allegation | Agency/individual |
|---|---|---|
| New York Times, June 12, 1986. | The most significant drug-running in Panama was being directed by General Noriega. | A White House official. |
| | "Doing away with the Panamanian connection—in the sense that General Noriega condoned and protects such activity—would put one hell of a dent in the movement of drugs in organized crime.". | |
| | "That's the bottom line". | |
| Do | General Noriega, operating through a small band of top associates in the military, maintains tight control of drug and money-laundering activities by his associates in the Panama Defense Force. The general was "deeply involved in legal and illegal business.". | An American official referring to a DIA recent classified report. |
| | "Nothing moves in Panama without the instructions, order and consent of Noriega". | |
| Do | General Noriega's role is depicted as being to "facilitate the shipments and pay the payoffs." "Noriega doesn't carry the stuff around. They pay him a percentage for protection of the traffic". | A former White House aide. |

| Source | Allegation | Agency/individual |
|---|---|---|
| Do | General Noriega's name appeared "over and over" in connection with specific dates, places and contacts in money-laundering and drug activities. | American official who has reviewed the most sensitive intelligence available to the U.S. Government. |
| Do | General Noriega is also reported to have a substantial interest in a bank in the Colon, Panama, Free Zone, which is heavily involved in laundering money for the M–19 as well as for narcotics dealers. | American officials. |
| Do | In the early 1980's General Noriega held a major financial interest in an opium-processing plant that was discovered, according to a House Foreign Affairs Committee investigation in 1985, in operation along the Panamanian-Colombian border. | Officials. |
| Do | The laboratory was apparently financed by Colombians along with a senior member of the Panama Defense Force whom it identified as a Colonel Melo. | House Foreign Affairs Committee investigation report. |
| Washington Post, June 13, 1986. | The Reagan administration has been assessing for several weeks a secret new intelligence study showing that Panamanian Gen. Manuel Antonio Noriega is involved in smuggling drugs and weapons, money laundering and contacts with Cuban intelligence personnel.<br>The report was compiled by the Central Intelligence Agency. | Informed sources. |
| New York Times, June 13, 1986. | Mr. Ingersoll confirmed that he had rejected a staff proposal to kill the Panamanian. He recalled that his agency had accumulated "hard information" that General Noriega was trafficking in drugs and had been frustrated in its attempts to persuade Brig. Gen. Omar Torrijos Herrera, who was then the military strong man of Panama, to take sanctions.<br>The recommendations was one of a series of options proposed in 1972 for dealing with the officer, who was then a Lieutenant Colonel. | John E. Ingersoll, former Director of the Bureau of Narcotics and Dangerous Drugs. |
| New York Times, June 12, 1986. | Late last year Vice Adm. John M. Poindexter, then the newly appointed national security adviser, visited the general and privately told him to "cut it out"—alluding to the drug and money laundering activities and his close relations with Cuba. | Government official. |
| New York Times, June 18, 1986. | On the charges of drug running, General Noriega said that army had worked closely with the United States Drug Enforcement Administration. "They are the best witnesses of the honesty and effort of our work," he said. | General Noriega. |

### NORIEGA INVOLVEMENT WITH MURDER OF DR. HUGO SPADAFORA

Dr. Spadafora, 45, was brutally killed Sept. 14, 1985. A "romantic revolutionary" and former Panamanian deputy minister of health, he regularly attacked Gen Noriega in La Prensa newspaper, for drug trafficking. The killing occurred a few weeks before Gen. Noriega ousted the Civilian President, Nicolas Ardito Barletta, who was about to name an investigating commission. Dr. Spadafora was beheaded and castrated. His body was found in Costa Rica, near the Panamanian border.

| Source | Allegation | Agency/individual |
|---|---|---|
| New York Times, June 12, 1986. | Noriega's involvement in the killing was "a critical misjudgment". DIA is known to have intelligence demonstrating that Gen. Noriega ordered the killing, according to an official with first-hand information. | DIA classified report. |
| Do | "There is no doubt" that Gen. Noriega was directly implicated | White House official. |
| Do | The intelligence "takes up to him" (Gen. Noriega) "as the originator of the idea and planning of it. The official added there is no evidence that Noriega was directly involved in the actual torture and slaying. | Another official. |

| Source | Allegation | Agency/individual |
|---|---|---|
| Do | Noriega is known (according to highly sensitive American intelligence) to have told "several aides in prior days that "I want that guy's head". | Do. |
| Do | The U.S. knows "***knows***" (emphasis added) "that the Panamanian Defense Force did him in. These are people who were working under Noriega". | Another American official in Central American at the time. |
| Do | "Who gave the order and why it was done in the way it was, we don't know". | Do. |
| New York Times, Oct. 2, 1985. | Dr. Spadafora was detained by a Pananamanian corporal at a military checkpoint on entering Panama. | Two witnesses swown testimony to Costa Rican police. |
| Do | Two olive green cars of the make used by the Panamanian Army left the site late in the night before the body was discovered. | Witness statement to the Costa Rican Police. |
| New York Times, June 18, 1986. | "I ask you who has been hurt by the death of Spadafora", suggesting that he himself had been the one most damaged. He added that the army was still investigating the death, and that it had "further details to look into. | General Noriega. |

## NORIEGA INVOLVEMENT IN MONEY LAUNDERING

**Allegations have been made that General Noriega has been extensively involved in illicit money laundering. Reportedly, Noriega is operating through a small band of top associates in the military, maintains tight control over money laundering activities by associates. Charges of Panamanian and Panamanian National Guard and Army involvement in money laundering date back to 1968. The most concentrated allegations date back to 1983.**

| Source | Allegation | Agency/individual |
|---|---|---|
| New York Times, June 12 1986. | General Noriega, operating through a small band of top associates in the military, maintains tight control of drug and money laundering activities by his associates in the Panama Defense Force. A DIA study said the General was "deeply involved in legal and illegal business". | DIA classified report. |
| San Antonio Light, June 11, 1985. | No formal charges have been made against the enigmatic defense chief (Noriega), and if U.S. agents have proof of his direct involvement in narcotics trafficking they guard it as tightly as a national security secret. But the evidence is overwhelming that officers in this 15,000 man defense forces, which have military and law enforcement duties are involved in at least protecting the trafficking of drugs and the transportation of cash coming here to be laundered. | Knut Royce, Hearst Newspapers. |
| New York Times, June 12, 1986. | General Noriega's name appeared "over and over" in connection with specific dates, places and contacts in money laundering. | American official who has reviewed most sensitive intelligence available to U.S. Government. |
| Do. | General Noriega is also reported to have substantial interest in a bank in Colon, Panama, Free Zone, which is heavily involved in laundering money for the M–19 as well as for narcotics dealers. | American officials. |
| San Antonio Light, June 10, 1986. | Panama through its banks is the leading laundering center for cocaine and marijuana traffickers. "The thing that makes Panama so significant to me, and to most of us is that not only is it the center for laundering proceeds, but it's a center for cutting up the deals, for making payments, for meetings. It's like the corporate center for drug trafficking". | Senior law enforcement officials in Washington. |
| Miami Herald, Sept. 3, 1984 | Lt. Col. Julian Melo, fourth ranking officer in Defense Force, was arrested and publicly disgraced for involvement in drug trafficking. The political opposition believes that Melo was a scapegoat for military sins without number. | Political opposition. |

| Source | Allegation | Agency/individual |
|---|---|---|
| Wall Street Journal, Nov. 3, 1983. | National Guard complicity in money laundering was raised in Miami trial of Abelardo Valdes-Guerra, the Panamanian general manager of Inair Cargo Airlines. Valdes-Guerra was convicted of conspiring to use "non-U.S. diplomatic channels" and other devices to transport unreported money to Panama. The U.S. Government put into the court record a laminated business card and tapes which linked Valdes-Guerra to the National Guard. | U.S. Government law enforcement agents. |
| Newsweek, June 6, 1983..... | Panama shipped millions of dollars in U.S. currency to the Federal Reserve Bank of New York. Possibly Panama is a new stop on the money laundry route for South American drug trade. Senate Committee was to investigate. | Senator William Roth, Permanent Subcommittee on Investigations. |
| New York Times, June 18, 1986. | Noriega denies allegations. "The General said the army could not be engaged in money laundering because bank transactions and banking regulations were outside of its control". | General Noriega. |

NORIEGA INVOLVEMENT IN GUNRUNNING

Allegations are that there is evidence linking General Noriega to longstanding arms deals to M-19, the Colombian rebel group. Shipments dwindled in the last few years, but have begun to flow again. Here again, widespread allegations have been directed toward the Defense Forces as well.

| Source | Allegations | Person/agency |
|---|---|---|
| New York Times, June 12, 1986. | According to the State Department, White House, Pentagon and intelligence sources, there has been long standing evidence among intelligence officials of General Noriega's activities including . . . his willingness to sell arms to the M-19 (pro-Cuban) rebel group in Colombia. | State Department, Pentagon, White House, and intelligence sources. |
| Do..... | The most specific details of General Noriega's involvement with M-19 were provided by CIA officials. In one instance, carefully monitored by the agency, General Noriega and members of the Panama Defense Force were found to have armed a small M-19 band—estimates range from 60 to more than 100—before an unsuccessful attack on Colombia's West Coast in early 1982. | Seymour Hersh (CIA sources). |
| San Antonio Light, June 10, 1985. | The military has run guns to leftist groups, although it is widely believed that these operations are motivated by profit rather than ideology. In 1979 a member of the military's intelligence operation, the G-2, was indicted in Miami in an arms smuggling operation on behalf of the Sandinistas. In 1980 one of its planes crashed delivering weapons to Salvadoran guerillas. | Knut Royce. |
| Miami Herald, Nov. 3, 1985.... | Nearly a decade ago Gen. Omar Torrijos Herrera, the former Panamanian leaders, began moving arms to leftist Nicaraguan and Salvadoran guerillas. | Sam Dillon. |
| San Antonio Light, June 10, 1985. | In the late 1970's Torrijos set up a network in Panama having to do with the Nicaraguan Revolution. "It was used for funneling men, arms and establishing a network of planes and clandestine contacts with officials in Cuba, Panama, Costa Rica, Nicaragua and Miami". | Ricardo Arias Calderon, head of Panama's opposition Christian Democratic Party. |
| New York Times, June 18, 1986. | According to General Noriega: "There has never existed any official tie, nor does it exist with any groups of guerillas or armed groups. There has never been official protection for any armed group against Colombia". | Noriega. |

NORIEGA INVOLVEMENT IN EXCHANGE OF INTELLIGENCE REGARDING UNITED STATES AND CUBA

According to the NYT (June 12, 1986), General Noriega's ties to Cuba have touched off a long standing debate among intelligence agencies. "The CIA has viewed General Noriega as an invaluable asset since the 1970's because of his willingness to provide intelligence on the Cubans. He later became a valuable source of

inside information on the Sandanista revolution in Nicaragua. At the same time, it was also known that Noriega was supplying intelligence on the U.S. and its activities in Panama and elsewhere to the Cubans." General Noriega was, in the 1970's Chief of Intelligence in the Panama Defense Force, under General Omal Torrijos.

| Source | Allegation | Agency/individual |
|---|---|---|
| Washington Post, June 13, 1986. | A secret, new intelligence report purportedly compiled by the CIA, links General Noriega with Cuban intelligence personnel, as well as smuggling drugs and weapons and money laundering. The Reagan Administration has been assessing the report for several weeks. | Informed sources and a source. |
| San Antonio Light, June 10, 1985. | "Cuba and Panama have become lucrative trading partners. Of the 54 companies and individuals worldwide designated by the U.S. Commerce Department as Cuban "fronts" and set up to purchase Western goods, 35 are in Panama". | Commerce Department information. |
| New York Times, June 12, 1986. | General Noriega is a secret investor in Panamanian export companies that sell restricted American technology to Cuba and East European countries. | Senior State Department, White House, Pentagon, and intelligence officers. |
| Do | "The station chiefs loved him." "As far as they were concerned, the stuff that they were getting was more interesting than what the Cubans were getting from Noriega on us". | Former American Ambassador to Panama referring to intelligence agents. |
| Do | In the mid 1970's Noriega was implicated in a secret espionage investigation involving the transfer of highly sensitive agency materials to Havana. Noriega purchased these documents from a U.S. army sergeant on duty in Panama. | Former officials of the National Security Agency. |
| Do | The sergeant informed Noriega of the clandestine monitoring of Senior Panamanian officials. (The breach of security was widely considered to be limited to interceptions of personal conversations, some of them highly embarrassing, by General Torrijos.). | Intelligence officials. |
| Do | In return for cash, the sergeant turned over transcripts of intercepts of General Torrijos, as well as highly sensitive technical materials including manuals that described how various NSA systems worked. "Quite detailed NSA documents were given to Noriega" and ended up in Cuba. | Retired NSA officials. |
| New York Times, June 18, 1986. | In mid 1983, members of a secret U.S. army intelligence unit were sent to Panama for spying and bugging operations targeted at Soviet and Cuban facilities there. The unit also was instructed to determine the feasibility of planting a listening device in a "safe house" frequently used by Noriega. | Sources. |
| New York Times, June 13, 1986. | The U.S. Government has been familiar with many of the allegations about Noriega for years and has tried to control his activity. "Why do you think we wanted to bug his (safe house)?" | Intelligence sources and one source. |
| New York Times, June 12, 1986. | There is long standing evidence of Noriega's activities, including his relations with the Cuban government. | State Department, White House, Pentagon, and intelligence sources. |
| Do | Vice Adm. John Poindexter visited Noriega late last year and privately told him to "cut it out"—alluding to the drug and money laundering activities and his close relations with Cuba. | Govenrment official. |
| Do | General Noriega enraged some American officers in the late 1970's when he bought 10 new American made automobiles while in Washington, D.C. and upon his return, turned over the vehicles to the Cuban diplomatic delegation in Panama City. | Intelligence report. |
| New York Times, June 18, 1986. | Accusations that he or the Army had turned American secrets over to Cuban intelligence "appear as a poorly written spy novel". | General Noriega. |

## Statement on Panama

Panama's Foreign Minister, Dr. Jorge Abadía Arias, has summoned U.S. Ambassador Arthur Davis to express to the Ambassador the profound uneasiness of the Government of Panama regarding the series of articles that appeared recently, using former or perhaps current unnamed U.S. Government sources, charging that

a high official of the Government of Panama (GOP), General Manuel Antonio Noriega, is involved in illegal activities.

Foreign Minister Abadía also requested from the Ambassador a clarification of official U.S. policy regarding Panama. In that context, the GOP is particularly concerned by the contradictory messages coming from the U.S. Administration. There are discrepancies between American Government public statements and the off-the-record press comments attributed to unnamed U.S. Government officials.

An illustration is the contrast between recent press allegations of illicit drug trafficking and statements by the Administrator of the Drug Enforcement Administration of the U.S. Department of Justice, who on May 8 in a personal letter to General Noriega, stated:

"I would like to take this opportunity to reiterate my deep appreciation for the vigorous anti-drug trafficking policy that you have adopted, which is reflected in the numerous expulsions from Panama of accused traffickers, the large seizures of cocaine and precursor chemicals that have occurred in Panama and the eradication of marijuana cultivations in Panamanian territory." (See enclosure.)

In addition, Dominador Kaiser Bazán, Ambassador of Panama to the United States, as quoted in The Miami Herald of May 13, 1986, expressed the willingess of the GOP to work with the United States Government in all areas of drug trafficking, including the alleged "laundering" of monies derived from such trafficking. This willingness was officially communicated to high officials of the United States Government. As a result, the specific date of June 23 was established to resume the dialogue on this issue.

Without question, the people and Government of Panama are strongly committed to a civilian constitutional government—presently under the able leadership of President Eric Arturo Del Valle. That constitutional government is committed to working with the United States Government, respectful and mindful always of Panamanian sovereignty, on the many bilateral issues effecting the historic close ties between our two countries.

It is for that reason that it is vital that the U.S. official position is clarified so we may get on with the pressing bilateral issues.

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PRESS STATEMENT FOR AMBASSADOR DAVIS

The United States Government is aware of the articles about Panama that have appeared recently in newspapers in the United States. I do not wish to speculate about the allegations themselves. The Government of Panama has issued its observations on the stories' charges. The United States respects the sovereignty of the Government of Panama, and intends to continue working with its duly elected officials and representatives in pursuit of our shared goals. High on the list of goals is the combatting of narcotics activity in its various forms. In this regard, the Government of Panama and the United States have worked in the past and continue to work closely with President Del Valle and through him with other Panamaian officials with promising results. We are now preparing, for example, to resume talks on a mutual legal assistance treaty which we hope will lead to concrete measures of particular value in the area of illicit narcotics traffic and the fruits of this criminal activity.

San Antonio Light

MONDAY, JUNE 10, 1985

# Panama a haven for traffickers

*Panama is a safe haven for narcotics traffickers and guerrillas who have financed their arms purchases through the narcotics trade. The country's tight bank secrecy laws, the venality of some of its bankers and the layers of corruption in its political and military establishment allow wholesalers to spend their ill-gotten wealth unimpeded by law enforcement efforts.*

■ FIRST IN A SERIES
■ SUBVERSION/A4

*Today, The Hearst Newspapers begins a series by Knut Royce on Panama's little-understood role in the narcotics trade.*

By KNUT ROYCE
The Hearst Newspapers

PANAMA CITY, Panama — The plot was hatched in Havana. The final outcome was bloodshed off Colombia's Pacific coast, but Panama is what made it happen.

It was on a steamy November day in 1931 that a medium-sized freighter, the Karina, entered the Panama Canal at Colon, on the Atlantic side of the isthmus, to begin the eight-hour journey to the Pacific. The crew and captain were from the Eastern bloc.

What set this ship apart from the 40 others that passed through that day was that it was on its final voyage.

The 40-mile canal crossing was uneventful. But shortly after it passed through the last locks at Balboa, The Hearst Newspapers have learned, it took on some unlikely cargo at the fishing port of Vacamonte: a new captain and crew, tons of weapons and a small contingent of insurgents belonging to the M-19 organization that was waging guerrilla warfare in Colombia.

"The M-19 was not aboard when it transited (through the canal)," said a U.S. intelligence official with intimate knowledge of what happened that day. "After it transited, the captain changed. The whole crew changed. The captain and the crew now were Panamanians. The M-19 came on. There's no official record of its being in Vacamonte. But there's information that's where it was."

The fishing port of Vacamonte is a 20-minute drive west of here. It is not a typical fishing port. Security guards refused access to a reporter and photographer to the port. In the past, they also have refused access to U.S. Drug Enforcement Administration agents.

The largest fishing fleet there, ranging at various times from two to four dozen ships, belongs to Cuba. And the vessels, apparently, do not always carry fish.

The Karina on that day four years ago was on a mission sponsored by Cuba.

The mission's organizer was a major Colombian narcotics trafficker, Jaime Guillot-Lara, a fugitive from a 1982 U.S. federal drug indictment. Cuba had allowed him to transhp narcotics into the United States. In return, he used his smuggling network at the behest of the Cubans to move guns to the M-19.

Several days after passing through the canal, the Karina offloaded some of its weapons to another of Guillot-Lara's ships, the Monarca.

A short time later, the Colombian Navy sank the Karina with about 100 tons of weapons and supplies still in the hold, killing an estimated 20 persons. Three low-level M-19 members were rescued, as was the Panamanian captain, although he died while in custody.

The following year, Thomas Enders, then assistant secretary of state for inter-American affairs, testified before a Senate Committee that Guillot-Lara had received $700,000 from Cuba to buy the arms and had "also transferred funds to the guerrillas through an employee of a Panamanian bank."

The Guillot-Lara-Cuba alliance was a classic example of what officials now are calling narco-terrorism, the symbiotic relationship between narcotics and subversion.

There were other times when Guillot-Lara used Panama as a stopping point in his gun-running missions. And not all of them failed.

A month before the sinking of the Karina, the M-19 guerrillas had hijacked a DC-3 cargo plane belonging to Colombia's Aerospeca airline.

As Guillot-Lara watched on a secret airstrip in Colombia, the plane was loaded with 55 crates containing 10 Belgian FAL rifles each and 90 boxes, each holding 1,000 rounds of 7.62mm ammunition.

The pilot flew the aircraft to the Orteguaza River, where he was forced to land on the water. Over the next several days the freshly armed guerrillas raided several small towns in the area.

The day after the plane was ditched, it was discovered by Colombian authorities. The empty crates showed that the arms had been packed in Colon, Panama.

For years M-19 guerrillas have passed through Panama on the way to Cuba for training. They also returned through Panama, picked up weapons and sneaked back into Colombia. Occasionally they have been caught, as was the case in April 1981, when a group re-entering Colombia through Ecuador was ambushed by the Colombian army.

Panama is an often-baffling U.S. ally. It is strategically important to the United States because of the canal, which comes under full Panamanian control in the year 2000, and the U.S. military installations in what once was the Canal Zone.

The U.S. Southern Command, which would play a critical role in any military action in Latin America, is based here.

Panama is a quixotically charming tropical nation populated both by a well-educated service sector and primitive Indian tribes. It also is struggling to sustain its reborn but tenuous democracy, overshadowed by an all-powerful military that prefers making dollars on the side to oppressing the population.

The national pastime is the pursuit of cash.

"It's like an old Humphrey Bogart movie," a Western diplomat said recently. "You want to do something — legal or illegal — go to Panama with enough money. You can find a way of doing it. You keep your nose clean and you bring in money to keep Panama (in the) green, you're a good citizen."

Panama, through its banks, is the leading laundering center for cocaine and marijuana traffickers, and many of the deals are made in the bars of its hotels and downtown law offices.

"The thing that makes Panama so significant to me, and to most of us," said a senior law enforcement official in Washington, "is that not only is it the center for laundering proceeds, but it's a center for cutting up the deals, for making payments, for meetings. It's like the corporate center for drug trafficking."

Unlike other banking centers with tight bank secrecy laws, such as the Dutch Antilles, Switzerland or the Cayman Islands, which have agreements with the United States to reveal bank information in certain felony cases, there are no bilateral agreements here and secrecy is absolute.

Corporate records do not indicate true owners. Many of the bank accounts are numbered and some of the bankers do not ask questions when suitcases of $20 bills are delivered by the armored cars.

In addition, according to U.S. officials, the Panamanian Defense Forces (PDF), also responsible for law enforcement, often are more aggressive in making a dollar out of the drug traffic than in stopping it.

In a scathing staff report earlier this year, the House Foreign Affairs Committee quoted a "knowledgeable U.S. source" as saying: "The Panamanian Defense Force is the axle around which the wheel of corruption turns."

"This corruption is endemic and institutionalized," the report said.

Gen. Manuel Noriega, the head of the Defense Forces, dismissed the report as "political."

The military also has run guns to leftist groups, although it is widely believed that these operations were motivated by profit rather than ideology.

In 1979, a member of the military's intelligence apparatus, the G-2, was indicted in Miami in an arms-smuggling operation on behalf of the Sandinistas.

The following year, one of its planes crashed while delivering arms to Salvadoran guerrillas.

In 1981, a pilot for the Defense Forces was arrested in Texas for trying to fly a Huey helicopter to Nicaragua.

Ricardo Arias Calderon, the head of the opposition Christian Democratic party and unsuccessful candidate last year for vice president, argues that the same apparatus initially set up to smuggle guns a few years ago has turned to more-profitable narcotics trade.

"In the late 1970s a network in Panama having to do with the Nicaraguan revolution developed," he said in an interview. "It was used for funneling men, arms and establishing a network of planes and clandestine contacts with officials in Cuba, Venezuela, Panama, Costa Rica, Nicaragua and Miami."

It was set up, he said, by the late populist dictator, Gen. Omar Torrijos, "who wanted to play a leading role as the Third World leader for the region."

Arias Calderon said that Torrijos began by helping arm the Sandinistas and later the M-19 guerrillas, whom he also urged to take "a more political course."

"There then were clear indications that the network was beginning to function in favor of the Salvadoran guerrillas," he said.

But over the past two years, he said, "some of the same names and planes used in this network were also used to form a network for drug trafficking. The more they became involved with Colombia, the more there was the opportunity of shooting two birds with one stone."

Helping fuel this shift, he said, was the crackdown on drug traffickers in Colombia, which started more than a year ago. Many U.S. law enforcement officials agree that the growing pressure against traffickers in Colombia has resulted in a partial shift of activity into Panama.

Running guns and dope or laundering drug money are tolerated, if not officially sanctioned, because they bring cash, and the ultimate damage they cause is elsewhere.

What is not tolerated is the importation of trouble. Cuba's Fidel Castro found that out early in his career.

In 1959 a team of 100 Cuban guerrillas landed in Panama to subvert a then-democratic government. They were quickly kicked out, although not before a young Panamanian officer, Omar Torrijos, took a slight bullet wound during a skirmish.

After that sad lesson, however, Castro came to learn that Panama could be much more useful as a pipeline.

He and Torrijos became best of friends, and Cuba and Panama have become lucrative trading partners. Of the 54 companies and individuals worldwide designated by the U.S. Commerce Department as Cuban "fronts" set up to purchase Western goods, 35 are in Panama.

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# Drugs, terrorism go hand in hand

By KNUT ROYCE
The Hearst Newspapers

PANAMA CITY, Panama — The symbiosis of narcotics and subversion is a relatively new phenomenon.

An exception was the disclosure in 1973 of an official Bulgarian import-export agency, Kintex, which facilitated the transiting of Turkish morphine base through Bulgaria and on to Marseille, where it would be converted to heroin.

In return, it was reported in Newsday, the traffickers smuggled guns to a Turkish left-wing group.

But over the past several years this marriage of convenience has taken roots elsewhere, most notably in Latin America, but in the Middle East and the Far East as well.

Testifying at a Senate committee hearing last month, David Westrate, deputy assistant administrator for the Drug Enforcement Administration, described the "emerging trend of using drug trafficking to support political ends" as a "major change in the historical pattern of drug trafficking."

During the 1960s, he said, the traditional profit motive has been replaced in many instances by "political activists, subversives and even some high government officials" who have turned to narcotics "to finance political objectives."

For example:

☐ COLOMBIA: The Westrate testified last month that Carlos Lehder, a major Colombian cocaine dealer, had told a Spanish television network in January that cocaine was the "atomic bomb" for Latin America to use against U.S. imperialism and that he had established contacts with the M-19 guerrilla organization.

U.S. officials say that all five guerrilla groups in Colombia — the M-19, the Revolutionary Armed Forces of Colombia, the National Liberation Army, the Popular Liberation Army and the Pedro Leon Arboleda group — finance operations by taxing marijuana growers and protecting cocaine labs.

Carlton Turner, special assistant to President Reagan for drug-abuse policy, said in an interview that Colombian authorities had told him that in 1983 alone the Colombian Revolutionary Armed Forces (FARC) earned $80 million from the drug trade.

"There were strong indications that they had purchased so many weapons with that money that they sold many to other groups," Turner said.

And, just before his death in a plane crash while flying into Panama in 1983, Jaime Bateman, the leader of another Colombian insurgent group, M-19, publicly confirmed that he had purchased arms from Portugal's black market with "protection" money from drug traffickers.

☐ PERU: In this leading coca plant-producing nation, according to State Department reports, the Maoist Sendero Luminoso terrorist group is said to have forged alliances with coca plant growers and traffickers, earning considerable political support from peasants, who view the eradication program as a threat to a historical source of income.

☐ NICARAGUA: Last year Rodolfo Palacios Talavera, first secretary at the Nicaraguan Embassy in Ottawa, was expelled after he was found with $100,000 worth of cocaine. A police informant said Palacios was part of a major drug ring that included Interior Minister Tomas Borge.

Last year, too, a Borge associate, Frederico Vaughan, was arrested in Miami for allegedly assisting Colombian traffickers in an attempt to ship 1,500 kilos of cocaine into the United States.

☐ HONDURAS: Last November, the FBI uncovered a plot to assassinate the president of Honduras. A group of dissidents, including a Honduran general, planned first to sell large amounts of cocaine and then to use the proceeds to finance the overthrow of the government, according to U.S. authorities.

☐ EL SALVADOR: Earlier this year, customs officials in Texas arrested Francisco Guerrero, an intimate friend and fund-raiser for El Salvador's right-wing opposition leader, Roberto d'Aubuisson. Inside eight suitcases on a private Sabreliner jet was a total of $5.9 million in $20 and $100 bills.

The dope may be grown elsewhere and the guns may be far from its borders, but Panama increasingly is the catalyst that brings the two together.

June 11, 1985

San Antonio Light

# Panama's powerful figure in drug money laundering

*For years, Panama has been a safe haven for narcotics traffickers and guerrillas who have financed their arms purchases through the narcotics trade. Now it has become a trading ground for traffickers who are "washing" billions of dollars through what authorities claim is the world's largest cocaine and marijuana money laundry. In a country whose national pastime is pursuit of money, there is an essential relationship between the narcotics trade and the official corruption that allows it to flourish.*

By KNUT ROYCE
The Hearst Newspapers

II SECOND IN A SERIES

PANAMA CITY, Panama — In 1972, U.S. narcotics agents recommended to their boss that he consider the "total and complete immobilization" — the code phrase for assassination — of Lt. Col. Manuel Noriega, then the head of the Panamanian military's intelligence unit, because of his alleged narcotics activity.

U.S. officials rejected the recommendation, and today the would-be victim is Gen. Noriega, commander of the Panama Defense Forces, PDF, and, by most accounts, the most powerful man in the country.

But U.S. law enforcement suspicions of Noriega's alleged role in narcotics trafficking have not abated.

"He's under investigation by everyone," said a federal narcotics investigator in Miami, where much of the cocaine and marijuana shipped or financed through Panama ends up.

No formal charges ever have been made against the enigmatic defense chief, and if U.S. agents have proof of his direct involvement in narcotics trafficking they guard it as tightly as a national security secret.

But the evidence is overwhelming that officers in his 15,000-man Defense Forces, which have military and law enforcement duties, are involved in at least protecting the trafficking of drugs and the transportation of cash coming here to be laundered.

A scathing House Foreign Affairs Committee report released earlier this year described what it said was pervasive military corruption.

"Under previous governments, members of the PDF were encouraged to take second 'jobs,' including drug trafficking, to supplement their income," the report stated. "Allegations persist that high-ranking military officials are involved in protection or actual trafficking themselves."

The Hearst Newspapers interviewed more than 24 federal agents who have investigated narcotics cases with links to Panama, as well as military and business officials in Panama and the United States. They detailed the links between official corruption and the burgeoning narcotics industry.

Much of the narcotics-related activity, the U.S. officials said, occurs at the military Tocumen Airport, which also handles cargo. It is adjacent to Panama City's commercial Omar Torrijos Airport.

It was here, for instance, that on May 18, 1982, a Convair 880 left for New Iberia, La., with a load of what was alleged to be specially prepared livestock feed to tranquilize airborne cattle. But U.S. officials had been tipped and when U.S. Customs agents opened the "feed" sacks they found, instead, 1,197 pounds of cocaine, which had been loaded in full view of Panamanian military personnel at the airport.

The cattle feed-shipping operation was run out of a fixed-base operation at Tocumen that was owned by a naturalized Panamanian named Jorge Baena-Robinson.

He and three others subsequently were indicted by a federal grand jury in Louisiana on four narcotics-related counts. The four are listed as fugitives.

Baena already had a track record of alleged involvement in drug trafficking, and in at least one earlier instance, a smuggler caught in the United States told agents that the narcotics had been shipped through Baena's operation, sources said.

"On two previous occasions he (Baena) had been called (by the Drug Enforcement Administration) to the attention of Noriega," said an official familiar with the case. "As this particular case was coming down, (DEA agents) had to go to the Panamanian Defense Forces intelligence section, the G-2 (then headed by Noriega), and asked for certain things to be done very quickly."

The DEA has no law enforcement authority in foreign posts.

"They weren't done very quickly," he said. "As a matter of fact, by the time the Panamanian forces got around to looking for this guy (Baena), by the time they looked for him, why, lo and behold, he had managed to escape to, they said, Caracas. Baena managed to do a miraculous escape (via Tocumen Airport). Nobody gets out of Panama that they don't want to get out, especially at Tocumen, with all the controls they have there."

It was at Tocumen, too, that the INAIR cargo airline was based. A 1983 video-taped sting operation by U.S. Customs officials in Miami netted two Panamanian officials of the airline in a conspiracy to launder money for a 12 percent fee by smuggling currency aboard INAIR flights.

Federal law requires that anyone transporting more than $10,000 in cash out of the United States must declare it to U.S. Customs.

Abelardo Valdes-Guerra, the airline's general manager, was convicted and sentenced to six months in prison. During the trial, a video tape was shown in which the defendants discussed how the $2 million in cash concealed in cartons would arrive at Tocuman at 4:30 a.m. local time and then be protected until banks opened at 7:30 a.m.

"I have the connection to let them in at the airport," Valdes-Guerra said in the tape. "Try to come out by the military gate."

At another point he said, "I got military guards in the station. So it's no problem over there. I will tell the guards nobody can touch this."

Also introduced into evidence was a laminated business card that had been in Valdes-Guerra's possession. It bore the signature of Lt. Col. Alberto Purcell, a member of the PDF general staff and head of the air force.

The message, it appears, was intended for his subordinates at Tocumen. It said, "The bearer, Mr. Abelardo Valdes, is a personal friend of your superior. Whatever cooperation, I authorize and appreciate."

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Last June, scandal once again rocked the airline. Customs agents at Miami International Airport found more than a ton of cocaine stuffed inside several freezers aboard an INAIR DC-8 cargo plane.

Only one man, a Colombian who had purchased the freezers at the Colon Free Trade Zone, was arrested. He pleaded guilty recently to a charge of conspiring to import the cocaine. The Colombian, Oscar Alfonso Cardona Donado, had been arrested by the Defense Forces and turned over to the DEA.

His Miami attorney, Joel Rosenthal, described Cardona as "the equivalent of a mule in this case." He said, "His financial ability to package such a deal clearly exceeds his income and wherewitha. multifold."

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Someone who appears to have been much more than a mule in narcotics trafficking is Julian Melo, who, until last year, was Colonel Melo, general secretary of the Defense Forces' High Command and a protege of Noriega.

Melo's removal from the military is said to have been prompted by his alleged "protection" role, for a $2 million fee, in two apparently related narcotics-linked discoveries last year.

One was a major cocaine lab that had been set up but was not yet operating in the Darien Jungle near Colombia. The other was the discovery of a huge cache of ether, a chemical precursor for the manufacturing of cocaine, in a Colon Free Trade Zone warehouse.

The lab was discovered by pure chance, according to U.S. officials.

A fisherman had noted that a helicopter was offloading crates from a ship on the Pacific Ocean and transporting them to a deserted beach on the fringe of the jungle. From the beach the crates were hauled to a point farther inland.

He reported the strange events to the Defense Forces. Believing that they had stumbled onto a Colombian guerrilla landing party, the Defense Forces quickly dispatched scouts to the site.

They found, instead, a virtually completed laboratory. U.S. officials reportedly asked them to allow the lab to be completed and begin production before law enforcement forces moved in. That way, they would be given time to develop intelligence and then arrest the principals.

But the next morning, Panamanian troops swooped down, arresting 23 Colombian construction workers and a bewildered elderly cook. Since there were no drugs on the site, they had committed no crime — other than entering Panama without proper documentation.

They were kicked out of the country.

The ether was discovered soon after the closing of the Darien lab. Officials say that at least some of the ether was to have been used in Darien.

At Washington's behest, Defense Forces raided the Colon warehouse and seized 17,000 55-gallon drums of ether — enough to process a staggering 200,000 kilos of cocaine.

There is some confusion about what then happened to the ether. At least a portion, and perhaps all of it, was dumped into the ocean.

U.S. officials worry that the 2-year-old crackdown on narcotics trafficking in Colombia, especially of its cocaine labs, may have moved some of that activity into Panama. The Darien lab would support that concern.

Political ideology is a commodity that Noriega reportedly lacks. He is said to be a nimble manipulator who plays all sides against the middle.

He has, however, become sensitive to adverse news reports. Many Panamanians believe he is grooming himself for a run at the presidency in 1989.

A Panamanian photographer on assignment for The Hearst Newspapers was arrested by the G-2 after photographing Noriega's luxurious home in the nouveau-riche San Francisco district here. His official salary is less than $20,000 a year.

The photographer, Aurelio Jimenez, was released after two hours, but the film in the camera and another roll in the car's glove compartment were confiscated.

Panama's military, not unlike many others in Latin America, cannot make do on the official defense budget — $98 million this year — and goes to the free market place to supplement its income.

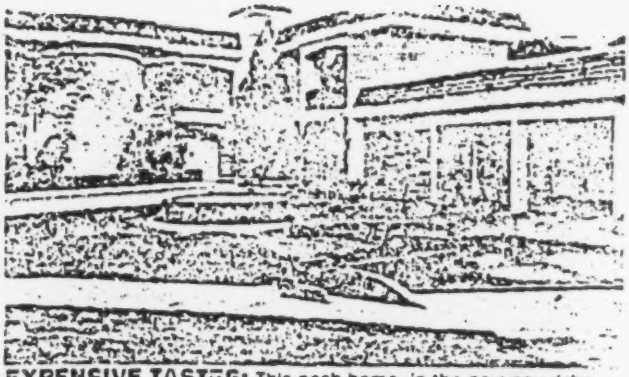
Panamanians and U.S. officials contend the military owns a number of legitimate businesses, such as the exclusive franchise for industrial explosives and a shipping business in the Colon Free Trade Zone called Transit S.A.

Unfortunately, some of the officers also have embarked on more shady businesses, including gunrunning, the protection of narcotics shipped through here and the importation of narcotics dollars.

What troubles one knowledgeable U.S. official is that the officers may be getting greedier.

ASSOCIATED PRESS

**SIDE BY SIDE:** Gen. Manuel Noriega, left, commander of the Panama Defense Forces, stands with ex-Col. Julian Melo, who as general secretary of the Defense Forces' High Command was cashiered from the military by Noriega for his alleged role in protecting narcotics traffic in the country last year. By most accounts, Noriega is the most powerful man in Panama.



**EXPENSIVE TASTES:** This posh home, in the nouveau-riche San Francisco district in Panama City, Panama, belongs to Cesar Rodriguez, a close associate of Gen. Manuel Noriega. Rodriguez crashed a Panamanian plane in El Salvador in 1980 while running guns to rebels.

# Gunrunning plays part in Panama's complexity

**By KNUT ROYCE**
The Hearst Newspapers

PANAMA CITY, Panama — Carlos Wittgreen is one of those Panamanians whose name keeps cropping up in U.S. government files.

It is, for instance, included in the Commerce Department's list of Cuban "designated nationals" with whom Americans are barred from doing business.

Wittgreen is the agent for much of Cuba's commercial business here.

His name also came up as a defendant in a 1979 federal indictment returned in Miami after Bureau of Alcohol, Tobacco and Firearms agents broke up a ring smuggling guns to the Sandinistas, then in the final stages of their revolution in Nicaragua.

And his name, as the prosecutor in the case was to find out, also must have appeared in CIA documents.

The "intelligence community," according to the prosecutor, asked to have the case dropped because Wittgreen was designated to head security for the deposed and very ill Shah of Iran, who had found temporary haven in Panama.

Also in U.S. government intelligence files is the name of Cesar Rodriguez.

In June 1980, Rodriguez piloted a plane that crashed on a clandestine airstrip inside El Salvador. He had been running guns to the guerrillas.

Salvadoran officials, who found 22,000 rifle cartridges inside the wreck, said that a backup plane had recovered Rodriguez and many of the arms. They also said the plane belonged to the Panamanian Defense Forces, PDF.

Besides gunrunning for people the U.S. government did not much like, Rodriguez and Wittgreen have something else in common: they are close associates of Gen. Manuel Noriega, chief of the PDF and, by most accounts, the most powerful man in the country.

Noriega's chief spokesman is Maj. Edgardo Lopez Grimaldi, a burly and affable former diplomat who speaks English clearly.

Lopez, according to the 1979 gunrunning documents, had been Panama's consul in Miami and had helped Wittgreen shop for guns there.

Lopez was not indicted, but five others, including Wittgreen, were. The scheme involved buying more than 1,000 rifles and pistols, as well as ammunition, and shipping them to a Panamanian hunting and fishing club called Caza y Pesca.

Claiming that the weapons had been intended for the PDF, Noriega wrote a letter to Washington protesting the indictment.

There was an awkward problem. The Nicaragua national guard under the late dictator Gen. Anastasio Somoza had seized truckloads of the weapons as they were being smuggled in through the Costa Rica border. Their serial numbers matched those on the weapons that had been purchased by Lopez and Wittgreen and the four other defendants.

One of the defendants, according to a government affidavit, already had divulged to a Miami gun dealer that $2 million worth of weapons would be purchased and that they were intended for "Nicaraguan guerrilla forces," the Sandinistas.

The indictment was technically flawed and was withdrawn by the prosecution. But when Assistant U.S. Attorney R. Jerome Sanford started to prepare a new one, he began to get "a lot of pressure from (the U.S.) Justice (Department) to close the case," he recalled.

The intelligence community, he said, wanted the charge dropped because "the Shah was running around and Wittgreen was going to be the chief of security for the Shah."

It is this political versatility — running guns for leftist insurgents one day and providing protection to an ailing former right-wing dictator the next — that leads many U.S. officials and Panamanians to believe that what motivates Wittgreen, Noriega, Rodriguez and others may be cash more than ideology.

Wittgreen recently told an acquaintance that he sees nothing wrong in his relations with Cuba.

"I am a businessman," the acquaintance recalled Wittgreen had said. "The United States, after all, does business with Russia and with China. What's wrong with my doing business with Cuba?"

San Antonio Light

# Drug money snowballing in Panamanian banks

*With little fanfare, a U.S. negotiating team has begun a critical mission in Panama: the opening of bank records belonging to narcotics traffickers who are "washing" billions of dollars through what authorities claim is the world's largest cocaine and marijuana money laundry. Successful negotiations, the United States believes, would result in a major breakthrough in the war against narcotics and the political instability it breeds in the Western Hemisphere.*

By KIRBY ROYCE
The Hearst Newspapers

B LAST IN A SERIES

PANAMA CITY, Panama — With its tiled roof, manicured hedges and tropical flowers gracing the entrance, the First Interamericas Bank looks more like a Mediterranean villa than a financial institution.

Something else distinguishes it from the 125 other banks that help shape the city's downtown skyline.

Awash in millions of narcotics dollars and a growing source of embarrassment to Panamanian authorities, the bank, owned by an indicted Colombian dope dealer, was closed by the government in March.

Rafael Arosemena, vice president of Citibank and president of the powerful Banking Association here, smiles when he recalls the event.

"It was," he said in an interview, "the first time in history that a bank was closed down because it was too liquid."

Concerned about Panama's "image of a center for laundering," he said, the association last September adopted a code of ethics that set a limit of $100,000 on any single cash deposit a bank can accept. And the government's Banco Nacional, which acts much like a central bank, also agreed to the $100,000 limit when accepting cash from the banks.

That is the good news.

The bad news is that since all of this happened, the laundering of narcotics dollars through the city's banks appears to be increasing.

A senior Treasury Department official said that excess cash flow from the Banco Nacional to the U.S. Federal Reserve Bank has increased dramatically over the past several months — a clear indication that large amounts of cash continue to be deposited in Panama despite the self-set $100,000 limit.

And most of that cash, officials assert, comes from narcotics traffickers.

In a typical drug deal, a cocaine wholesaler is paid, say, $2 million in cash — normally in small bills — for a hypothetical shipment.

U.S. banks must report all cash deposits of more than $10,000 to the Treasury. That leaves a paper trail. To avoid that, the dealer arranges for the cash to be delivered to Panama.

The money usually is smuggled out of the United States, because anyone taking more than $10,000 out of the country must report it to U.S. Customs. The transaction is facilitated because Panama uses U.S. bills as its paper currency, although it calls them Balboas instead of dollars.

Once it arrives in Panama, the cash is taken by armored truck to a local bank and deposited in a prearranged, secret account. The local bank needs only a limited amount of cash for its daily use, so it delivers its surplus dollars to the Banco Nacional.

Since the Banco Nacional, too, cannot use the cash, it ships it to the U.S. Federal Reserve Bank. The records kept of those transactions indicate the sharp increase in the cash flow of Panama's banks.

Panama's legitimate annual cash need, according to the Treasury official, is about $100 million, the same amount the Federal Reserve delivered to Panama last year in fresh bills.

But last year, according to Treasury records, the Banco Nacional transferred $1.1 billion to the Federal Reserve.

Based on first-quarter records, this year's total will be $1.3 billion or $1.5 billion. A delivery to the Federal Reserve, ironically, was larger than in March — when the First Interamericas Bank was closed.

The trend is disheartening. In 1980, only $250 million was delivered to the Federal Reserve; in 1981, $503 million; in 1982, $1 billion; it dipped slightly in 1983, to $840 million, after the arrest of a major courier, Ramon Milian Rodriguez.

Most of the $4 billion-plus in cash that has flowed into the local banks since 1980 is believed to have come from narcotics wholesalers. It therefore represents an estimated $20 billion to $40 billion in retail narcotics sales in the United States, according to Treasury figures.

And that is just cash. It does not take into account the hundreds of millions of narcotics dollars that are transferred here by wire from other offshore banking centers.

"All of this has to be stopped," said Carlton Turner, the White House special assistant for drug-abuse policy. "The [illegible] who are laundering [illegible] probably more despicable [illegible] dealer because the [illegible] cts all of us."

Citibank's [illegible]

"It is very [illegible] assist to help in [illegible] needs of laundering [illegible] But it [illegible] banks do [illegible] all the steps. Any [illegible] ama said would [illegible] ructed so that "[illegible] a is not [illegible] other banking centers.

It is not just [illegible] e dollars that worries [illegible] manian bankers; it also [illegible] logical effect.

Shedding li[illegible] ghtly, on narcotics [illegible] ctions could [illegible] an

(more)

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FOCUS OF PROBE: The First Interamericas Bank in Panama City, Panama, owned by a Colombian narcotics trafficker under indictment in the United States, was shut down by Panama in March. The bank is the focus of a drug money laundering investigation in New York.

Americas tax evader, a corrupt Bolivian public official or Israeli businessman forbidden from holding foreign accounts — worry that he, too, might get overexposed.

The United States, aware of these concerns, has a couple of trump cards for the negotiations.

Administration sources say that the government may not press for recovery of the illicit funds as it has in other criminal drug cases. Rather, these proceeds could go directly into the Panamanian treasury, which would be a windfall for a nation that has one of the world's highest per capita foreign debts — $3.7 billion — and a deeply troubled economy.

Consider the case of Ramon Millan Rodriguez. Acting on a tip from Panamanian authorities, U.S. officials arrested Millan at a Fort Lauderdale, Fla., airport on May 4, 1983, as he was ready to take off for Panama with $5.4 million in cash.

A federal indictment returned in Miami last year alleges that Millan, over an eight-month period in 1982 and 1983, made weekly and sometimes twice-weekly trips to Panama in his private Lear jet and deposited $131 million in cash into local bank accounts that he had set up for dozens of clients.

That $131 million is nearly three times the $34 million in U.S. aid for budgetary support for Panama for fiscal 1985 and about a fourth of what Panama currently needs to service its debt.

The other U.S. trump card is a Supreme Court ruling last January that upheld a federal grand jury's subpoena served on the Miami branch of the Bank of Nova Scotia for records held by the bank's branches in the Bahamas and the Cayman Islands.

If the negotiations fail, according to sources, the Justice Department will execute more than 20 subpoenas for records in Panamanian banks with branches in the United States.

What makes Panama such a magnet for narcotics dollars is the anonymity of locally based corporations — there are 150,000 active ones on file — and the use of U.S. currency, as well as the tight secrecy of Panamanian banks and the fact that Colombia is accelerating its prosecution of narcotics agents.

Also, most of the narcotics wholesalers are Latin Americans who prefer Hispanic Panama to the decidedly Anglo Bahamas and Cayman Islands, or the Dutch Antilles.

For about $1,200, a local law firm will design a paper corporation or appoint nominee directors to conceal the identity of true owners.

Arosemena said that the Panama Banking Commission, which regulates the banks, for several years was unaware of who owned First Interamericas. Started in the 1970s by seven former officers of the Chase Manhattan Bank to deal mostly in trusts and commodities, the venture failed.

He said that the bank then was transferred to a bearer corporation held by indicted Colombian narcotics dealer Gilberto Rodriguez Orejuela.

To be sure, only some of the local banks, and only some of the officers in them, routinely deal with narcotics cash.

In addition to the First Interamericas Bank, U.S. authorities point to several others.

Among them: the Banco Cafetero, whose special account in a New York bank was used by First Interamericas as part of its alleged laundering operation; the Banco de Iberoamerica, where Millan deposited much of his cash; the Banco Ganadero; the Banco Interoceanico de Panama; the Banco Real; the Banco de Colombia; and the Banco de Occidente.

It not only is cash that gets brought into the country by narcotics traffickers. Over the past couple of years a new word has emerged in the drug enforcement lexicon — the smurf.

The smurf is a middleman who, for a fee, takes a large amount of dope cash, goes to several U.S. banks — and sometimes several tellers at the same bank — and buys cashier's checks for less than $10,000 each. The checks are written out to fictitious names.

This eliminates the need for bulky suitcases or boxes, making the money easier to smuggle into Panama. And the checks escape U.S. scrutiny because there is no system for keeping track of them when they are sent to the United States.

A relaxation of the banks' tight secrecy laws clearly would cause ripples in the banking system. It also would run counter to a long tradition of minimal interference in the free market place.

MEMORANDUM

To: All Select Committee Members.
From: John T. Cusack, Chief of Staff.
Subject: Review of News Articles on Panama.

This week articles in The New York Times and The Washington Post have alleged Panamanian involvement in drug trafficking and smuggling. Specifically, the articles assert that a CIA report indicates that Panamanian General Manuel Antonio Noriega is involved in smuggling drugs and weapons, in money laundering, and with Cuban intelligence personnel. (See attached: NYT 6/13/86, 6/12/86 and WP 1/13/86).

Gen. Noriega heads the Panamanian army, known as the Defense Force. He is also the perceived leader of the country (NYT 6/12).

This is not the first time that allegations of illegal activities have been made against Noriega and/or the Defense Force. In 1985, Dr. Hugo Spadofora, a medical doctor and romantic revolutionary, accused Noriega of being a narcotics trafficker who had corrupted Panama. Spadofora was later found tortured and brutally murdered. There was strong circumstantial evidence that the killing was carried out by the army. It was not clear whether Noriega was involved. There were some allegations that the killing was carried about by individuals trying to win favor with Noriega, rather than Noriega himself. (See attached: NYT 10/2/85, Wash Times 9/30/85)

Critics of Panama's Defense Force have charged for years that influential officers were selling protection to regional drug traffickers and helping them launder their money through some of the country's more than 125 secretive banks. (See attached: Miami Herald 11/3/85) In 1984, the fourth ranking officer, Lt. Col. Julian Melo, was arrested, but never prosecuted, for his links to a cocaine-processing factory discovered in the Panama Jungle (See attched MH 11/3/85, MH 9/3/84). Allegations of the involvement of the army in money laundering seem the most supportable. (See attached: WP 4/18/84, Wall Street Journal 11/3/83, Newsweek 6/6/83)

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[From the New York Times, June 18, 1986]

PANAMANIAN, DENYING CHARGES, SAYS HE WON'T QUIT

(By James LeMoyne)

PANAMA, June 17.—The commander of the Panamanian Army denied all charges of involvement in criminal activities today and brushed aside calls from the opposition for his resignation.

In an interview, the commander, Gen. Manuel Antonio Noriega, insisted that he and the army would continue to play a major role, together with the civilian President, in running the country. But General Noriega is widely seen as the true wielder of political power in the country and the army has either imposed or deposed the last five presidents.

"The role of the defense force in this country is different from any other armed forces," General Noriega said. "Here the President of the republic, who rules and takes decisions, is a friend of ours. We are his subaltern and his support. We've learned to walk together."

General Noriega contended that he was the victim of a political campaign by his enemies in Panama who, he said, had manipulated American officials and news organizations to join in attacks against him. He added, however, that he did not expect relations between the United States and Panama to be affected by the accusations.

In a communique today, the Panamanian Government said it was satisfied with the clarification of United States policy toward Panama delivered Monday by the United States Ambassador here.

General Noriega denied repeatedly that either he or the Panamanian Army as an institution had ever been involved in drug running, money laundering and espionage for Cuba or had helped leftist Colombian guerrillas. the charges, quoting several American officials, have been reported by NBC News and in articles in The New York Times.

General Noriega said: "The article that the paper you are part of proceeded in a totally unaccustomed form from that which you could consider a free press in a democratic country. You don't mention any official, in the presentation you mention sources, unidentified officials. But this isn't presented in the truth of justice or else it would be immediately invalidated."

General Noriega added that he believed his political opponents had planted the article in the United States in order to have it reprinted in Panamanian newspapers to damage him politically.

"It is a fight to get political power," the general said of the accusations.

COLOMBIAN REBEL TIE DENIED

Speaking of reports of Panamanian support for Colombian leftist guerrillas, he said; "There has never existed any official tie, nor does it exist, with any group of guerrillas or armed groups. There has never been official protection for any armed group against Colombia."

General Noriega also denied army involvement in the killing last September of Hugo Spadafora, a leading critic of the army.

Costa Rican Government investigators and Mr. Spadafora's family contend that Mr. Spadafora was killed in Panama after being detained by the Panamanian Army. His beheaded body was found the next day just inside Costa Rica.

Asked about the killing, General Noriega said, "I ask you who has been hurt by the death of Spadafora," suggesting that he himself had been the one most damaged.

He added that the army was still investigating Mr. Spadafora's death and that it had "further details" to look into.

AIR SERVICE CLOSED DOWN

The general said the army could not be engaged in money laundering because bank transactions and banking regulations were outside of its control.

Replying to a specific charge by American officials that a Panamanian air service known as Inair Airline was used for laundering drug money General Noriega contended that the Panamanian Army in fact had closed down Inair Airline last year because of suspicions it was involved in running drug money and that the army had informed United States officials of this. His account could not immediately be confirmed.

On the charges of drug running General Noriega said that army had worked closely with the United States Drug Enforcement Agency Administration. "They are the best witnesses of the honesty and effort of our work," he said.

"The problem isn't Manuel Antonio Noriega," the army commander added. "He is a man in time and space. The philosophy of the defense forces is to be developmentalist and to be united with the people. There will be plans to destabilize by those who don't have power and want power."

The accusations against General Noriega have created a political furor in Panama, with opposition parties calling for his resignation and for an investigation of the charges against him.

But the opposition is weak and divided and appears unable to muster the popular backing or the leadership to challenge the ruling of the alliance of the army and a number of political parties and trade unions.

The pro-Government press and ruling Democratic Revolutionary Party today replied to demands for General Noriega's resignation by charging that opposition groups were plotting a coup.

General Noriega said he did not know why American officials would make strong accusations against him, but speculated that it might be a maneuver to put pressure on Panama on a number of issues, including eventual control of the Panama Canal.

"This is all one package of actions," he said, referring to the accusations by American officials and opposition calls for his departure.

The general, who is 47 years old and has served in the army for 23 years, said accusations that he or or the army had turned American secrets over to Cuban intelligence "Appear as a poorly written spy novel."

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[From The New York Times, June 13, 1986]

## U.S. Officials Express Concern Over Charges Against Panamanian

(By Stephen Engelberg)

WASHINGTON, June 12.—Senior Reagan Administration officials expressed concern today about evidence that the army commander of Panama was involved in drug trafficking and money laundering and was linked to the killing of a political opponent.

Members of Congress and the Administration said they had been aware for some time of the charges against the commander, Gen. Manuel Antonio Noriega, who is viewed as the leader of Panama.

WELL BEYOND RUMORS

Asked to comment on a report Thursday in The New York Times on the activities of General Noriega, Elliott Abrams, the Assistant Secretary of State for Inter-American Affairs, said, "These are serious charges, but they have been around a long time."

Representative Gerry E. Studds, Democrat of Massachusetts, said he expected the Subcommittee on Western Hemisphere Affairs of the House Foreign Affairs Committee to investigate the charges against General Noriega.

"There's no question we need to proceed," Mr. Studds said. "The allegations are so comprehensive, so broad and so serious. Clearly we are well beyond the rumor stage and it's time for us to do something."

He added: "We have some really bizarre friends around the world. This is one of the more bizarre."

Secretary of State George P. Shultz, questioned by reporters in the lobby of the State Department building, said "activities of that kind are obviously of importance and concern to us."

General Noriega had been visiting the United States, but left this morning for Panama, according to a spokesman at the Panamanian Embassy. He apparently cut short his trip, canceling plans to attend a graduation ceremony Friday in Washington of the Inter-American Defense College, according to a diplomat familiar with the general's travel schedule.

PANEL TO HOLD HEARINGS

The chairman of the Senate Foreign Relations Committee, Richard G. Lugar, Republican of Indiana, said today that the panel would hold closed-door hearings on Panama and on allegations of misconduct involving the Nicaraguan rebels. An aide to Mr. Lugar said the hearings were tentatively scheduled for June 23.

Representative Larry Smith, a member of the Foreign Affairs Committtee, said a House task force on international drug trafficking would hold hearings on Panama next week. Mr. Smith, a Florida Democrat, said the staff of the Foreign Affairs Committee prepared a report on Panama last year and "it appears things have gone way beyond where we were at that time."

"If in fact these allegations are true, nothing we could be getting out of it could possibly justify turning a blind eye," Representative Smith said.

Senator Frank H. Murkowski, a Republican of Alaska who is on both the Senate Intelligence Committee and the Foreign Relations Committee, said he had long been concerned by the presence of more than 70 banks in Panama. "It's pretty hard to imagine how they could support all those banks based on the economy of that country," he said. "One can infer there's laundering going on."

ACTIVITIES WERE KNOWN

The Reagan Administration and its predecessors were said to have been aware of General Noriega's involving in activities, including the simultaneous transfer of intelligence to Cuba and the United States. Administration officials said that the United States had been willing to accept his activities because of the privileges granted by General Noriega for military and intelligence operations.

Representative Sam Gejdenson, a Connecticut Democrat, said that members of Congress had long been concerned by General Noriega's activities. "I think everyone has known about it for some time," he said. "It's one of the countries in the region which members of Congress and the Administration have focused on as a problem."

Representative Gejdenson urged the Administration to use the public disclosure of the problems in Panama as a way to press "for some very serious changes." He added: "We need to use our influence to make sure that reforms come quickly. It's a situation that's ripe for Soviet exploitation."

Commenting on The Time's article on General Noriega's activities, the State Department spokesman, Bernard Kalb, said:

"We find these allegations to be disturbing and that examination of these allegations would appear to be a matter for consideration by the Government of Panama."

[From The New York Times, June 12, 1986]

## PANAMA STRONGMAN SAID TO TRADE IN DRUGS, ARMS AND ILLICIT MONEY—U.S. AIDES ALSO ASSERT NORIEGA HELPS LEFTIST REBELS IN COLOMBIA

(By Seymour M. Hersh)

WASHINGTON, June 11.—The army commander of Panama, a country vital to United States interests in Latin America, is extensively involved in illicit money laundering and drug activities and has provided a Latin American guerrilla group with arms, according to evidence collected by American intelligence agencies.

Senior State Department, White House, Pentagon and intelligence officials said the evidence also showed that the commander, Gen. Manuel Antonio Noriega, who is in effect the leader of the country, had been tied to the killing of a political opponent. They also said that for the last 15 years, he had been providing intelligence information simultaneously to Cuba and the United States.

In addition, they said, General Noriega is a secret investor in Panamanian export companies that sell restricted American technology to Cuba and Eastern European countries.

### ESPIONAGE INVESTIGATION IN 1970'S

In the mid-1970's, according to former officials of the National Security Agency, General Noriega was implicated in a secret espionage investigation involving the transfer of highly sensitive agency materials to Havana. These officials said General Noriega purchased the N.S.A. documents from a United States Army sergeant on duty in Panama.

A White House official, discussing General Noriega's role in what he depicted as the "Panamanian connection," said curtailing the general's activities would play an enormous role in stopping the international trafficking of drugs by organized crime.

The head of the Panamanian military, called the Panama Defense Force, is widely viewed as the politically dominant force in the country.

General Noriega is on a visit to the United States this week and presented a Panamanian medal of honor today at a private ceremony at the Inter-American Defense Board. Requests to interview the general in Washington received no response.

In Panama last weekend, General Noriega could not be interviewed to discuss the Americans' assertions despite three days of telephone calls to the army press office and attempts to reach him through other senior army officers.

### SPOKESMAN DENIES ASSERTIONS

The general, said Capt. Eduardo E. Lim Yueng, the second in command of the Panama Defense Force press office, was too busy with other important business. Two days of telephone calls, including several written messages left with secretaries, brought no reply from the presidential press office.

Captain Lim Yueng, however, denied the assertions as a spokesman for the "institution of the armed forces and for General Noriega." He said General Noriega and the military were the victims of a campaign of slander that had no basis in fact.

"These are political attacks," he said. "General Noriega would answer the same way. This campaign is trying to damage our institution."

A White House official said the intelligence information about General Noriega's activities had been made available to senior officials of the White House. But this official and others said they did not know whether President Reagan was aware of the reports.

A senior Reagan Administration official would not discuss the assertions against General Noriega, who was previously head of military intelligence and became army commander when Brig. Gen. Omar Torrijos Herrera was killed in a helicopter crash in 1981. The Administration official expressed concern that the intelligence information would damage relations with Panama if it was seen as reflecting the views of the White House.

Officials in the Reagan Administration and past Administrations said in interviews that they had overlooked General Noriega's illegal activities because of his cooperation with American intelligence and his willingness to permit the American military extensive leeway to operate in Panama.

They said, for example, that General Noriega had been a valuable asset to Washington in countering insurgencies in Central America and was now cooperating with the Central Intelligence Agency in providing sensitive information from Nicaragua.

But many Reagan Administration officials made clear in interviews that the extent of General Noriega's activities was seen as a potential national security

threat because of the strategic importance of Panama and the Panama Canal. Under treaties negotiated with General Torrijos in the 1970's, the United States has agreed to turn the canal over to Panama in the year 2000.

"It's precisely because we have long-term strategic interests in Panama, with the canal, that it's important to have reliable people we can deal with," a senior American diplomat said. In addition, Panama has become increasingly important for the United States and its monitoring of insurgencies in Central America.

### GENERAL'S ACTIVITIES: LEGAL AND ILLEGAL

A recent classified report by the Defense Intelligence Agency concludes that General Noriega, operating through a small band of top associates in the military, maintains tight control of drug and money-laundering activities by his associates in the Panama Defense Force, according to one American official. The study said the general was "deeply involved in legal and illegal business."

"Nothing moves in Panama without the instructions, order and consent of Noriega," the official said.

According to the State Department, White House, Pentagon and intelligence sources, there has been longstanding evidence among intelligence officials of General Noriega's activities, including his relations with the Cuban Government and his willingness to sell arms to the M-19 rebel group in Colombia.

The goal of M-19, which is pro-Cuban, is to overthrow the democratically elected Government. Over the years, the guerrilla group has been responsible for violent attacks that have led to hundreds of deaths.

Of the assertion on the M-19 guerrillas, Captain Lim Yueng, the Panamanian Army spokesman, said: "We have no information on M-19. We do all we can to avoid Panama being used as a trampoline for terrorism."

The captain also denied any Cuban intelligence efforts in Panama or that General Noriega was involved in any shady activities with Cuba. He also denied any export of embargoed goods to Cuba. "Cuba has an embassy here and normal relations with us like many countries," the captain said.

He added, "We've captured drugs here, and are doing our best to collaborate with the United States to fight narcotraffic in Panama."

### A CRITICAL MISJUDGMENT IN KILLING OF A CRITIC

What has come to be seen within the United States Government as the Noriega problem was heightened by recent intelligence directly tying the general and the top leadership of the Panama Defense Force to the slaying last September of Dr. Hugo Spadafora, one of the army's leading critics.

In his statement, Captain Lim Yueng said: "There is absolutely nothing in this case involving the army. Spadafora had many enemies. The institution of the armed forces absolutely denies any ties to the death of Spadafora. We criticize this crime."

A classified Defense Intelligence Agency report on General Noriega described his involvement in the killing as "a critical misjudgment" on his part. The D.I.A. is also known to have intelligence demonstrating that General Noriega ordered the killing, according to an official with first-hand information.

Dr. Spadafora's decapitated body was found stuffed in a United States mailbag in Costa Rica just across the Panamanian-Costa Rican border. The killing occurred a few weeks before General Noriega ousted the civilian President, Nicolás Ardito Barletta, who was about to name an investigating commission.

Mr. Barletta was replaced by Eric Arturo Devalle, who is viewed by American officials as another nominal leader, with the army commander actually in control of the country.

Some senior White House officials have privately been concerned about General Noriega's activities. Late last year Vice Adm. John M. Poindexter, then the newly appointed national security adviser, visited the general and privately told him to "cut it out"—alluding to the drug and money laundering activities and his close relations with Cuba, according to a Government official.

Admiral Pointdexter was later quoted as having raised questions about an alternative to the Panamanian general.

The issue is a chronic one for American policy makers; how far to overlook corruption and a lack of democratic principals in allies in order to protect secret intelligence installations.

Senior civilian officials in the Pentagon, headed by Nestor D. Sanchez, a former C.I.A. and White House aide for Latin American issues who is a Deputy Assistant Secretary of Defense for Inter-American Affairs, are known to be concerned that

any successor to General Noriega might not be willing to tolerate the American military activities that now exist in Panama.

### IN PANAMA, A WEB OF U.S. INTELLIGENCE

Since the early 1980's the National Security Agency, operating through its military components in the Army, the Navy and the Air Force, has vastly increased its intelligence-gathering activites in Panama. It is now capable of monitoring all of Central America and most of South America from its Panamanian installations.

The Central Intelligence Agency has also used military bases in Panama, especially Howard Air Base near Panama City, as a jumping-off point for intelligence gathering and for agents sent to Nicaragua, according to intelligence officials.

In interviews, Reagan Administration officials emphasized the nature of the evidence tying General Noriega and the top leadership of the Panama Defense Force to money-laundering and drug trafficking activities.

One official who said he had extensively reviewed the most sensitive intelligence available to the American Government on General Noriega, including reports from agents and intercepts, described most of the specifics as "having to do with gun and drug running."

He said General Noriega's name appeared "over and over" in connection with specific dates, places and contacts in money-laundering and drug activities.

Much of the information, the sources acknowledged, has been gleaned from National Security Agency intercepts, among the most highly classified information in the Government.

In interviews, intelligence officials repeatedly described General Noriega as brilliant in masking much of his direct involvement, preferring to operate through cutouts or as a secret partner in Panamanian trading companies and banks.

An American official with long experience in Panamanian affairs noted that the general seemed to have become more circumspect in his pattern of activity in the early 1980's, moderating overt support for M-19 and direct financial involvement in drug activities.

Instead, the official said, the general has invested more heavily in legitimate business ventures and become more involved in what were described as safer and more lucrative activities—money laundering, much of it, according to American law enforcement agencies, known to be drug-related. In addition, the official said, he has also become involved in the shipping of high-technology American goods, much of them on restricted lists, from duty-free zones in Panama to Cuba and countries in Eastern Europe.

### COLOMBIAN REBELS AND THE PANAMANIANS

According to American intelligence officials, there is evidence tying General Noriega to longstanding arms dealing to M-19, the Colombian rebel group.

Such shipments dwindled in the last few years, officials said, apparently in response to pressure from the Reagan Administration, but have begun to flow again. General Noriega's M-19 trafficking "continues today," said an official with access to the most current intelligence.

The most specific details of General Noriega's involvement with M-19 were provided by C.I.A. officials. In one instance, carefully monitored by the agency, General Noriega and members of the Panama Defense Force were found to have armed a small M-19 band—estimates range from 60 to more than 100—before an unsuccessful attack on Comombia's west coast in early 1982.

Members of the M-19 group, which had been trained in Cuba, were tracked by American intelligence as they left Havana and flew to Panama, according to intelligence officials. They said the rebels were then armed by members of the Panama Defense Force and shipped by a boat, which has passed through the canal, from Panama Bay to two locations off the coast of Colombia.

The guerrilla bands wre eventually found and attacked by Colombian officials, with heavy loss of life, according to intelligence officials. Diaries were seized in which the recruits told of their training in Havana and their stay in Panama, including an overnight stay in a safehouse that was said to have been provided by members of the Panama Defense Force.

Other American intelligence officials told of viewing reconnaissance film, believed to have been taken by a high-flying U-2, depicting M-19 aircraft off-loading drugs at a Panamanian Air Defense Force airstrip. Arms were said to have been loaded into the craft for its return to Colombia.

Through his legal and illegal activities. American officials said, General Noriega has amassed an enormous personal fortune, much of which is believed to be deposit-

ed in European banks. He is reported to own at least two homes in Panama City and one in southern France. As army commander, officials said, General Noriega earns a salary of $1,200 a month.

General Noriega is also reported to have a substantial interest in a bank in the Colón, Panama, Free Zone, which American officials said is heavily involved in laundering money for the M-19 as well as for narcotics dealers.

### LAUNDERING MONEY AND SHIPPING DRUGS

According to a 1985 assessment of "U.S. Narcotics Control Programs Overseas," published by the House Foreign Affairs Committee, Panama is regarded by American law enforcement officials as a "drug and chemical transshipment point and money-laundering center for drug money."

Panama's banking laws are among the most stringent in the world, permitting secret accounts by individuals and corporations that are virtually free from scrutiny by American law enforcement officials. Additionally, Panama's corporation laws allow companies to be organized with no public disclosure of principals. As a result, Panama has become a world leader in the depositing of illegal profits from drug dealing and other activities.

Cash on deposit at a Panamanian bank can simply be sent by wire to banks in the United States or elsewhere, part of the process known as money laundering, in which the ultimate source of the money is disguised through a series of transactions.

A White House official said the most significant drug-running in Panama was being directed by General Noriega.

"Doing away with the Panamanian connection—in the sense that General Noriega condoned and protects such activity—would put one hell of a dent in the movement of drugs in organized crime," the White House official said. "That's the bottom line."

In the recent interviews, Administration officials depicted General Noriega's current drug function as that of a "facilitator." The officials cited intelligence reports showing that he is a secret investor in companies controlled by a Panamanian businessman and is financially involved in a series of trading companies.

A former White House aide depicted General Noriega's role as being to "facilitate the shipments and pay the payoffs."

The former aide added: "Noriega doesn't carry the stuff around. They pay him a percentage for protection of the traffic."

General Noriega's involvement in money laundering was similarly described by American intelligence and diplomatic officials as a behind-the-scenes role, with private export companies acting as his agent.

Officials said the United States had intelligence showing that in the early 1980's General Noriega held a major financial interest in an opium-processing plant that was discovered, according to a House Foreign Affairs Committee investigation in 1985, in operation along the Panamanian-Colombian border.

The Congressional report noted that the laboratory was apparently financed by Colombians along with a senior member of the Panama Defense Force whom it identified as a Colonel Melo.

The colonel and others were arrested by the Panama Defense Force, the report noted, but "none was prosecuted due to 'lack of evidence.' " Administration officials said that despite the officer's arrest and dismissal from the military by General Noriega, he was still living openly in Panama City.

Customs officials have filed many criminal indictments in which the role of members of the Panama Defense Force was prominent. In one case, involving a private Panamanian freight carrier, Inair Cargo Airlines, a Federal grand jury returned an indictment charging conspiracy to move "multimillion-dollar shipments" of cash to Panama.

According to American officials, there is evidence tying General Noriega and members of the Defense Force to a financial involvement in a small airline charter company that, operating out of the main airport in Panama City, flies weekly money-laundering missions in and out of the United States. The aircraft is met in Panama by an armored truck.

### NORIEGA REPORTED LINKED TO A KILLING

According to American officials, the Defense Intelligence Agency has uncovered evidence linking General Noriega to the slaying of Dr. Spadafora.

General Noriega has repeated military denials of involvement in the killing.

One White House official who has access to the Government's intelligence reports said "there is no doubt" that General Noriega was directly implicated in Dr. Spadafora's death.

Another official said the intelligence "takes it up to him"—General Noriega—"as the originator of the idea and the planning of it." There is no evidence, the official added, that General Noriega was directly involved in the actual torture and slaying of Dr. Spadafora, who was beheaded.

General Noriega is known, according to highly sensitive American intelligence information, to have told "several aides in prior days that 'I want that guy's head,' " the official said. American intelligence officials in Panama are known to have reviewed the Panamanian medical reports on the slaying and confirmed, the official added, that Dr. Spadafora was tortured four to six hours while alive.

Another American official, who was in Central America at the time of the slaying, similarly declared that the United States "knows"—he emphasized that word—"that the Panamanian Defense Force did him in; these are people who were working under Noriega."

This official also said, however, that "who gave the order and why it was done in the way it was, we don't know." The possibility cannot be ruled out, he added, that some of General Noriega's associates may have killed him without an express order in hopes of currying favor with their leader.

### A SUPPLIER OF DATA TO CUBA AND U.S.

General Noriega's ties to Cuba have touched off a longstanding debate among intelligence agencies.

The C.I.A. has viewed General Noriega as an invaluable asset since the 1970's because of his willingness to provide intelligence on the Cubans. He later became a valuable source of inside information on the Sandinista revolution in Nicaragua and, informed officials said, has used the Panamanian Embassy in Managua to collect intelligence for the United States.

At the time, it was also known that General Noriega was supplying intelligence on the United States and its activities in Panama and elsewhere to the Cubans.

"The station chiefs loved him," a former American Ambassador to Panama recalled, referring to intelligence agents. "As far as they were concerned, the stuff that they were getting was more interesting than what the Cubans were getting from Noriega on us."

Another American official told of a briefing in Washington at which he was assured that General Noriega was "our man." After the American was posted to Panama City, one of the first National Security Agency intercepts that crossed his desk said that the D.S.G.I., the Cuban intelligence agency, had assured its operatives in Panama that General Noriega was "their man."

One former senior C.I.A. offficial who served in Panama when General Noriega was chief of intelligence under General Torrijos defended his agency's reliance on General Noriega.

"To me, he was under continuous attack by people who kept saying, 'Look at his with Havana.' But he was G-2," or intelligence. It was General Noriega's job, the C.I.A. official explained, to stay in close contact with Havana.

"As to who had the upper hand—and this was debated for years—the United States or Cuba, I frankly think it was the United States that came out ahead" because of General Noriega's reporting, he said.

### A BREACH OF SECURITY: SINGING SERGEANTS

The most disturbing breach of security in General Noriega's relationship with Cuba involved his recruitment of an American Army intelligence sergeant in the mid-1970's. The incident briefly came into public view in the fall of 1977, in a critical period in the Carter Administration's negotiations with Panama on the future of the canal.

Among other details, the sergeant informed General Noriega of the clandestine monitoring of senior Panamanian officials, according to intelligence officials. There were later allegations from American critics of the Panama Canal treaties that the United States had eavesdropped on Panamanian negotiations, had been caught in the process and was being threatened with exposure unless last-minute concessions were made. The Senate Intelligence Committee, after investigating the incident, concluded that there was no evidence that the Panamanians had made any blackmail threats.

The incident became known inside the Carter Administration as the case of the "singing sergeants," and the breach of security was widely considered to be limited

to interceptions of personal conversations, some of them highly embarrassing, by General Torrijos.

Retired N.S.A. officials, in recent interviews, depicted the breach as far more troublesome and one that directly involved General Noriega. In the officials' account, the sergeant began dealing with General Noriega. Transcripts or intercepts of General Torrijos were turned over, in return for cash payments, as well as highly sensitive technical materials, including manuals that described how various N.S.A. systems worked. "Quite detailed N.S.A. documents were given to Noriega" and ended up in Cuba, a former N.S.A. official recalled.

General Noriega enraged some American officers in the late 1970's according to an intelligence report, when he purchased 10 new American-made automobiles while on a visit to Washington and then, upon his return, turned over the vehicles to the Cuban diplomatic delegation in Panama City.

Many American officials, despite their hostility to General Noriega's involvement in these activities, expressed admiration for his ability to keep his various constituencies—such as the United States and Cuba—at bay. One key to his success, some officials said, was his lack of ideology.

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[From the Washington Post, June 13, 1986]

## Report on Panama General Poses Predicament for U.S.

(By Charles R. Babcock and Bob Woodward)

The Reagan administration has been assessing for several weeks a secret new intelligence study showing that Panamanian Gen. Manuel Antonio Noriega is involved in smuggling drugs and weapons, money laundering and contacts with Cuban intelligence personnel, according to informed sources.

The report, one source said, was compiled by the Central Intelligence Agency and presents the administration with a serious policy dilemma about how to handle a longtime diplomatic and intelligence ally at a vital strategic location in Central America.

Noriega, who heads Panama's defense forces and formerly ran its intelligence service, in effect runs the country. He has long been what one U.S. official called a key "provider and facilitator" for the CIA and U.S. military intelligence in Panama, the sources said.

The New York Times and NBC News detailed many of the allegations against Noriega yesterday, including one that he was involved in the decapitation slaying last fall of a political opponent who publicly accused him of drug trafficking.

The intelligence community is split about how to deal with the problem, the sources said.

Several officials said that, for years, Noriega provided such good information that officials felt it necessary to overlook allegations of misdeeds. Other officials however, said the charges against him have been so well documented that they cannot be ignored.

Some of the allegations were disclosed last month by administration officials at a closed Senate Foreign Relations Committee hearing. An aide to Sen. Jesse Helms (R-N.C.), chairman of the subcommittee on Western Hemisphere affairs, said yesterday that the hearing was needed because U.S. relations with Panama had "clearly deteriorated" in recent years.

"We lost a lot of intelligence assets with Marcos, too," the aide said, referring to the recent ouster of Philippine president Ferdinand Marcos. But it is a question of how long do you abide a character like Noreiga?"

A senior Reagan administration official said yesterday that "in the past, we've needed" Noriega but added that the detailed allegations published and broadcast yesterday may force a reevaluation.

The White House declined comment yesterday beyond saying that "it is basically a Panamanian affair."

At the State Department, spokesman Bernard Kalb said. "We find these allegations to be disturbing and that examination of these allegations would appear to be a matter for consideration by the government of Panama."

A spokesman for Noriega has denied the charges, and the Panamanian Embassy had no comment.

Besides being the location of the Panama Canal, which by treaty is to pass from U.S. control by the year 2000, Panama is the site of U.S. military and intelligence operations for Central America.

The headquarters of the military's Southern Command is there, as are bases for reconnaissance planes, and a National Security Agency listening post that gathers signals intelligence from several countries, according to officials.

"There are so many targets and opportunities . . . Soviets, Cubans, the Nicaraguans, Noriega himself," one well-placed source said, describing the area as "an intelligence feast."

According to a range of sources, Panama is so centrally and strategically located that other nations operate stepped-up intelligence-collection efforts there.

In mid-1983, for instance, sources said, members of a secret U.S. Army intelligence unit were sent to Panama for spying and bugging operations targeted at Soviet and Cuban facilities there. The unit also was instructed to determine the feasibility of planting a listening device in a "safe house" frequently used by Noriega, sources said.

U.S. intelligence has determined that its Soviet counterparts operate a company there as a "cover" for their Central America operations, according to one source.

Perhaps the most serious allegation that surfaced yesterday was The New York Times report that highly sensitive intelligence information tied Noriega to the decapitation slaying last September of Dr. Hugo Spadafora, a leading critic of Noriega. The Times quoted an unidentified U.S. official as saying the information showed that Noriega was the "originator of the idea."

Noriega allegedly told several aides before the slaying, "I want that guy's head," The Times reported. Spadafora's head was found later in a U.S. mailbag in Costa Rica near the Panamanian border.

Intelligence sources yesterday would neither confirm nor deny that intelligence showed such direct involvement by Noriega in the slaying.

Intelligence sources said the U.S. government has been familiar with many of the allegations about Noriega for years and has tried to control his activity. "Why do you think we wanted to bug his [safe house]?" one source asked yesterday.

National security adviser John M. Poindexter met last year with Noriega and, according to one source, urged him to end his involvement with drug traffickers and intelligence services such as Cuba's, which are associated with the Soviets.

Sources confirmed yesterday that Noriega has been involved with companies and individuals known to be narcotics dealers.

Rep. Charles B. Rangel (D-N.Y.), chairman of the House Select Committee on Narcotics Abuse and Control, said yesterday that he expects to hold hearings on the allegations.

The panel's senior Republican, Benjamin A. Gilman (N.Y.), echoed the senior administration official, saying, "If the charges are true, then we must reassess our entire relationship with the government of Panama."

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[From the New York Times, June 13, 1986]

## U.S. Aides in 1972 Weighed Killing Officer Who Now Leads Panama

(By Seymour M. Hersh)

Washington, June 12.—Law enforcement officials in the Nixon Administration once proposed the assassination of Gen. Manuel Antonio Noriega, who was then chief of intelligence in the Panama Defense Force, as a partial solution to that nation's heavy drug trafficking, according to a Senate Intelligence Committee report.

The recommendation was one of a series of options proposed in 1972 for dealing with the officer, who was then a lieutenant colonel. The options were presented to John E. Ingersoll, then the Director of the Bureau of Narcotics and Dangerous Drugs. Mr. Ingersoll, the Senate report said, rejected the option, which proposed the "total and complete immobilization" of General Noriega. A separate Department of Justice investigation also found no evidence that any direct action against General Noriega had been put in motion.

General Noriega is now the army commander of Panama and is widely viewed as the politically dominant force in the country in an article in The New York Times today. American intelligence agencies were reported to have evidence that General Noriega is extensively involved in illicit money laundering and drug activities and provided a Latin American guerrilla group with arms.

In a telephone interview about the Nixon-era events. Mr. Ingersoll confirmed that he had rejected a staff proposal to kill the Panamanian. He recalled that his agency had accumulated "hard information" that General Noriega was trafficking in drugs

and had been frustrated in its attempts to persuade Brig. Gen. Omar Torrijos Herrera, who was then the military strongman of Panama, to take sanctions.

Mr. Ingersoll, who is now a security consultant, recalled that at the same time the Bureau of Narcotics and Dangerous Drugs was under heavy pressure for more aggressive action in international narcotics control from senior officials in the Nixon White House, including John E. Ehrlichman, then the counsel for domestic affairs.

### A SET OF OPTIONS

Mr. Ehrlichman, reached at his home in Sante Fe, N.M., acknowledged today that during the Nixon years there was White House pressure on Mr. Ingersoll "to get more results," but he said it was nothing more than that—general pressure. Mr. Ingersoll's most pressing concern, Mr. Ehrlichman said, was Turkey as a source of drugs.

The pressure from the White House and the hard intelligence about the extent of General Noriega's involvement in drug trafficking led Mr. Ingersoll's staff to prepare a set of options to deal with the Panamanian, Mr. Ingersoll said.

The Senate Intelligence Committee, in a 1978 report, said five options against General Noriega, who was described as a "Guardia Naconal official" rather than by name, were "considered" by the Bureau of Narcotics and Dangerous Drugs in the first months of 1972.

The report listed these options:

Linking the official to a fictitious plot against General Torrijos.

Leaking information on drug trafficking to the press.

Linking his removal to negotiations over the future status of the Panama Canal.

Secretly encouraging powerful groups in Panama to raise the issue.

"Total and complete immobilization."

Senate committee investigators confirmed that the officer referred to was General Noriega, and that the option calling for "immobilization" was a euphemism for assassination.

### PERIOD OF TENSIONS

One investigator described the evidence obtained by the Bureau of Narcotics and Dangerous Drugs in early 1972 as extensive, and said it showed that the Panamanian intelligence officer "was more powerful than anybody wanted to admit at th. time."

The Senate report said the options paper was composed at a period of tension in United States-Panamanian relations that stemmed from the drug agency's efforts inside Panama. Agency officials had arrested a Panamanian official inside the Canal Zone, which was then under American jurisdiction, creating a serious diplomatic incident.

According to the Senate report, the State Department and Panama's intelligence service, which Mr. Noriega ran, then insisted that investigators from the Bureau of Narcotics and Dangerous Drugs not enter Panama without coordinating the activities with the United States Ambassador.

Recalling the atmosphere, Mr. Ingersoll said today that there was "no question" that the extensive, and seemingly protected, activities of Colonel Noriega posed "a problem."

### APPROACH TO TORRIJOS

"The only way to deal with him was to go to his leader," Mr. Ingersoll said, adding that he and top aides in his agency responded to the options paper by taking what he called "hard information" about Mr. Noriega's drug dealings to General Torrijos at a meeting in Panama City.

The confrontation also had been urged by the White House, Mr. Ingersoll said. "They would never have instructed me to go visit the head of an allied country without hard information," he said.

General Torrijos responded to the evidence, Mr. Ingersoll said, by "suggesting that something might be done." But no steps were taken against Colonel Noriega, and Mr. Ingersoll said he concluded at the time that "Torrijos was worried about him even then" and that "Noriega was a very dangerous man."

The 1972 options paper emerged during the Senate Intelligence Committee's extensive investigation in the late 1970's into American intelligence activities inside Panama. At issue was whether there were any high-risk American activities that, if disclosed, would endanger or taint the negotiations then being conducted over the Panama Canal treaty.

INSTANCES OF PLOTTING REPORTED

The Committee report also noted that the Department of Justice had investigated the drug agency options paper in 1975 and had concluded that "no legal activity resulted."

A former senior Justice Department official, reacted today, acknowledged that three lawyers, all knowledgeable in national security affairs, had been assigned in the post-Watergate period to investigate four known instances of formal and informal assassination plotting by federal agencies during the Nixon Administration. The department inquiries, conducted in strict secrecy, found "no evidence" in any of the four cases that any action had resulted from the plotting.

It could not be learned what the other three instances were, or how the four cases became known to officials in the Justice Department.

The former Justice Department official said that once confronted with written evidence of assassination plotting, the unit adopted the approach of working "from the bottom up" and summoning field operatives and low-level officials for questioning.

"There were four instances," the official recalled, "where there was a whiff that there could have been consideration of assassination." The Bureau of Narcotics and Dangerous Drugs options paper with its reference to "immobilization," was one of the four, he said.

"In the Noriega case," he added, "we approached it to see whether any steps were ever taken—and none was."

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[From USA Today, June 13-15, 1986]

PANAMA CHARGES AN OPEN SECRECT—GUNS, DRUGS, MURDER REPORTED

(By Juan J. Walte)

News reports on Gen. Manuel Antonio Noriega, Panama's military strongman, were no surprise, two experts on Latin America said Thursday.

An NBC broadcast and a lengthy *New York Times* report discussed whether he was connected to a political murder, drug tafficking and gun-running to leftist guerillas.

"All of this has long been an open secret in Central America," said Ron McDonald of Syracuse University. "In fact, this is only the tip of the iceberg."

Noriega was in the USA Thursday and could not be reached for comment. But in previous interviews he's called such statements lies circulated by political enemies.

Discussed in the reports:

Whether he sold secrets to Cuba while reporting Cuban and Nicaraguan intelligence to the United States.

The murder of government critic Hugo Spadafora. His decapitated body was found in 1985 in Costa Rica near Panama—unleashing a major political scandal.

Noriega "is in deep trouble," said Richard Millett of Southern Illinois University. "The Spadafora case just won't go away."

Noriega's opponents say the Reagan administration tolerates him because U.S. national security interests are at stake in his strategic nation, site of the Panama Canal.

Almost 10,000 U.S. troops are based there—in a spot handy for U.S. oversight of troubled Latin America.

Secretary of State George Shultz said Thursday the activities attributed to Noriega "are obviously of concern to us."

But Millet, who called Noriega "el hombre" (THE man) in Panama, said it would "not be fair and prudent to suspect that all problems in Panama are the work of one man. It's an institutional problem."

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[From the Miami Herald]

PANAMA MAY RESUME TALKS ON BANK RECORDS

(By Alfonso Chardy)

WASHINGTON.—Panama's ambassador to the United States says his country is ready to resume stalled negotiations on a treaty that would grant U.S. auditors access to secret records of foreign banks in Panama to trace drug profits.

Ambassador Dominador Kaiser Bazan's offer to resume the talks, made during an interview with The Herald, came in response to congressional testimony last month by a senior official of the Drug Enforcement Administration criticizing Panama for its unwillingness to renew the talks.

"The last round of talks ended early last summer without any progress on the matter, and we have been unsuccessful in getting Panama to schedule new talks," said Ray McKinnon, DEA's deputy assistant secretary of foreign operations. In remarks to a Senate foreign relations subcommittee.

The proposed Mutual Legal Assistance Treaty would give U.S. investigators access to foreign bank records in Panama to verify money-laundering operations for drug trafficking or other illegal schemes.

McKinnon said the Panamanians were reluctant to sign the treaty because they feared it would lead to massive withdrawals from Panama's banks. Banking secrecy is a major attraction for foreign depositors in Panama, where there are more than 125 foreign banks with more than $30 billion in assets.

McKinnon said that based on Treasury Department estimates, more than $600 million in narcotics profits may be laundered through Panama every year.

An administration official said Panama's willingness to resume the talks, if true, would be "welcome news."

Bazan, in the interview last week, said a formal proposal would be made soon to the Reagan administration.

He added, however, that before talks can resume, the Panamanian government must first negotiate an agreement with the banks on regulating U.S. access to their records if a treaty should be signed.

"We must first accommodate the concerns of the banks because we do not wish to hurt that industry," Bazan said. "If that industry is affected, then there would be an adverse impact on employees and the economy of Panama."

He said the banking industry was a priority for Panama because it employed more people than the Panama Canal, which has about 8,500 employees.

The ambassador said that the bankers themselves are not unaware of the money-laundering problems and already have set up an internal policing system to weed out banks that aid drug traffickers. Because of that system, he added, one bank had been ordered closed last year.

"But obviously we are willing to do something more and this is what we are looking at," Bazan said.

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[From the Miami Herald, Nov. 3, 1985]

## DRUGS SPARK PANAMA MANHUNT

(By Sam Dillon)

PANAMA.—One morning in May, while on a visit to Costa Rica, Panamanian pilot Teofilo Watson got up, told his wife he had a flight to make, kissed her goodbye, drove away from the Cariari Hotel and disappeared.

How, where and why Watson vanished remains a mystery; his disappearance might have passed unnoticed had not 538 kilos of cocaine also come up missing.

Somebody, somewhere, made off with the $18.8 million shipment, infuriating Colombian drug lords and unleashing a brutal manhunt that has ranged northward from the mountains of Colombia into Panama's western hills. It has bred three kidnappings, some nasty torture and plenty of glaring publicity of Panama's normally discreet drug underworld.

So far police have made six arrests—and suggest that more may be in the offing.

The latest detention come Oct. 8, when police picked up Watson's partner. Floyd Carlton—a pilot with plenty of friends in the military—to probe his involvement in narcotics traffic.

"We're deepening our investigation," said Domitilo Cordoba, Panama's second-ranking policeman. "We'll go after anyone it touches."

Critics of Panama's powerful Defense Forces have charged for years that influential officers were selling protection to regional drug traffickers and helping them launder their money through some of the country's more than 125 secretive banks. The suspicions gained momentum last year when the fourth ranking officer in Panama's Defense Forces was cashiered, though never prosecuted, for his links to a cocaine-processing factory discovered in the Panama jungle.

Most strident in voicing the anti-military charges had been an anti-government gadfly named Hugo Spadafora. His claims took on fresh urgency when he turned up beheaded Sept. 14.

GRIST MILL

Legal testimony in the kidnapping cases is more grist for this mill. Watson and Carlton had ferried a string of influential military men across Panama's airways before Watson vanished, according to reliable Panamanian sources.

And now a 29-year-old drug dealer arrested in the case, along with a Defense Forces corporal who was his employee, have described to prosecutors the embarrassing—through not necessarily incriminating—business and social ties they enjoyed with several high-ranking military officers. Foremost among these was Panama's former military chief.

"Temptations are large in every police force in the world," said Cordoba, asked about the revelations. "But our authorities are in no way sponsoring these criminal activities. We'll not stop until we punish everyone involved—whoever it may be."

The story of the missing pilot has roots that can be traced back nearly a decade, when Gen. Omar Torrijos began moving arms to leftist Nicaraguan and Salvadoran guerrillas. Needing a corps of discretely nonmilitary but reliable pilots for his special missions. Torrijos plucked a number of country boys from poverty in Panama's western Chiriqui province and trained them as aviators.

Two of these pilots made the newspapers during a dramatic incident in 1980 when, loaded with rebel arms, one put down on a crop-dusting strip in eastern El Salvador. A Salvadoran air force plane strafed him, injuring his leg and disabling his plane. His partner, Floyd Carlton, swooped down in a second plane, snatched him up and ferried him back to a hospital in Panama.

In the years since, residents in Chiriqui's provincial capital of David, watching the mounting prosperity of several of these pilots, have wondered what other cargo they have been flying.

Carlton, 36, has paid cash for a couple of Chiriqui ranches. His impressive income has come from a "pharmaceutical import-export firm" opening out of a hanger at Panama's downtown Paitilla airport, according to legal records. Everything was going just fine until the disappearance of his partner and frequent co-pilot, Teofilo Watson, 34.

Fearing the wrath of the Medeilin-based Ochoa clan in Colombia, whose cocaine was missing, Carton gathered up his wife and kids and fled to Miami on July 3, according to Ana Balfon, the prosecutor who has handled the cases.

The vengeful Ochoas needed help from someone who knew Panama's terrain well enough to track Carlton. They found it in French-born Alberto Audemar, 29, a David resident who knew Carlton and had run afoul of the law earlier this year in Medeilin.

The Ochoas sprung Audemar from jail with a bribe—one of Audemar's relatives says it was $300,000—supplied his with three Medellin street gunmen, and sent him after Carlton.

IMPORTANT FREINDSHIPS

Audemar turned for help inside Panama to Raul Mata Zuniga, 31, a former law student with—testimony would later indicate—some important friendships within the Defense Forces.

Both Mata and Audemar had grown inexplicably wealthy in recent years.

Audemar, a typewriter repairman in David, last year paid cash for a $110,000 yacht. When a reporter interviewed his wife last month, a 1985 Porsche and a 1985 BMW sat gleaming in his garage. Mata, officially unemployed, until recently owned a costly waterfront apartment, a Porsche, Mercedes and BMW, according to his legal testimony.

Audemar and his Colombian kidnapping team returned to Panama in July, flying clandestinely to an island off the coast. Mata motorboated out to meet them, he testified.

Orlando Mendez, Carlton's cousin and right-hand man, was sitting in his car a few days later outside a Panama grocery when Audemar, brandishing a Beretta pistol, slid in beside him and grabbed him by the hair. Mata wielding a pistol-sized submachine gun wrapped in a towel, jumped in the back.

According to the victim's testimony, the men drove him to David for interrogation about Carlton's whereabouts. The victim—eventually released—claims that during his captivity of several days, the kidnappers repeatedly beat him with pistols, clubbed him with rifle stocks and shocked him with electric wires.

"I give him a few little jolts just to relax him," Mata conceded to prosecutors.

Armed with M-16 and Uzi submarine guns and grenades, the kidnappers set an ambush for Carlton outside his ranch. When he failed to show, they spent much of a day fruitlessly poking about the property, searching for the 538 kilos of coke.

The kidnappers turned to Watson's wife, Yuly, 20, intercepting her as she was driving back to her suburban Panama City home with two brothers and a 19-month-old daughter.

Driven to a farmhouse north of Panama City, she pleaded ignorance of her husband's whereabouts. The kidnappers had Watson's daughter taken outside and an automatic rifle fired to simulate an execution, then let Mrs. Watson go when she stuck to her story.

On July 21, the kidnappers seized Jose Aguilar, 29, a mechanic who tended Carlton's high performance autos. They beat him with pistols and left him handcuffed for 36 hours in a Panama City apartment, then released him.

Then things began to unravel. The mechanic ignored threats and went to the authorities. So did Watson's wife.

Worse, soldiers picked up the Colombians, undocumented, outside a bordello along the Costa Rican border.

Mata tried to square things. On July 25 he sent an emissary to David to cajole Chiriqui's provincial commander into deporting the Colombians without further questioning. The emissary returned the same day, saying that $60,000 would end official curiosity, according to Mata's testimony and prosecutor Balfon. For reasons that remain unclear, the fix didn't stick.

On July 26, agents from Panama's equivalent of the FBI moved in on the kidnappers houses in David and Panama City. They didn't find Audemar, but they got Mata at this aunt's place. To their surprise, at Mata's apartment, police also detained Defense Forces Corp. Agustin Bedoya Garcia, 27, whom Mata had employed as an errand boy since the corporal had forgiven a traffic violation by Mata in 1982.

Under questioning the same day, Mata blamed the kidnappings and torture on Audemar, then squealed on a lot of powerful friends.

Questioned about his unexplained wealth, Mata testified that he had acquired most of his money while he was "in business" with the two sons of former Defense Forces chief Gen. Ruben Dario Paredes, who retired in 1983.

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[From the New York Times, Oct. 2, 1985]

## Elements in Ouster of Panama Chief: Beheading and a Power Duel

(By James LeMoyne)

Panama, October 1.—When the Panamanian Army forced the country's President to resign last week, it was apparently an effort to bury a growing murder scandal and to end a power struggle within the armed forces, according to several Panamanian and foreign political experts here.

The army commander, Gen. Manuel Antonio Noriega, returned from a trip to Europe last Wednesday to squelch a palace coup that was probably provoked by public demands for an investigation into the torture and decapitation two weeks ago of one of the army's leading critics. Dr. Hugo Spadafora, the political analysts said.

Although no one seems to be absolutely certain of the chain of events, it appears that in order to soothe his opponents in the officer corps, General Noriega felt it necessary to depose of President Nicaols Ardito Barietta last Friday.

Mr. Barietta had hinted that he might appoint a commission to investigate Dr. Spadafora's killing. Several Panamanian political leaders, pointing to strong circumstantial evidence, say the killing was almost certainly carried out by the army, though perhaps not on general Noriega's orders.

### WAS FALLING FROM FAVOR

Mr. Berietta, who was originally selected to become President by General Noriega, was already falling from favor because he had failed to revive the country's debt-burdened economy. He had alienated virtually every sector of Panamanian society with ineptly presented policies that offered the sour medicine of tightening taxes, cutting protecting tariffs and reducing privileges for labor unions, several sources here said.

According to Panamanian and foreign political analysts, General Noriega summarily summoned Mr. Barietta from the United Nations General Assembly meeting in New York last Thursday night.

Mr. Barietta initially refused to resign, but finally gave in after being held and threatened for 14 hours, according to members of Mr. Barietta's family and other highly reliable sources. The United States Ambassador to Panama, Everett Ellis Briggs, has counseled Mr. Barietta not to return to face the army, two reliable sources said.

Mr. Barietta reportedly told a local television station, as well as friends, that something other than a dispute over economic policies had caused the army to force him to resign. The comment appears to lend weight to the belief that the army, which is known here as the Panamanian Defense Force, deposed him to stop an investigation into Dr. Spadafora's death.

AN UNUSUALLY BRUTAL KILLING

The killing, two weeks ago, seems to have focused discontent because it was an usually brutal act in a country that has escaped the worst of the political violence that has swept the rest of Central America. Opposition leaders and Dr. Spadafora's family are continuing to demand that an independent commission be appointed to investigate his killing, and one of Dr. Spadafora's brothers is backing the demand with a hunger strike.

Mr. Spadafora was a medical doctor with a taste for revolutions. After fighting in Guinea-Bissau, he joined a former Sandinista commander, Edén Pastora Gómez, in recruiting more than 300 other Panamanians to help overthrow Anastasio Somoza Debayie, the Nicaraguan dictator, in 1979.

After joining Mr. Pastora again to fight against the Sandinista Government they had helped put in power, Dr. Spadafora left to become an adviser to Miskito Indian rebels in Costa Rica.

TRIED TO SLIP ACROSS BORDER

In recent months, however, he had spoken of his hopes of overthrowing General Noriega and freeing his country of army domination, according to friends and associates who were with him in Costa Rica. Dr. Spadafora, who was 45 years old, also accused General Noriega of being a narcotics trafficker who had corrupted Panama.

According to his family and to an official report by the Costa Rican police presented to the Costa Rican Government. Dr. Spadafora tried to slip across the border into Panama on Sept. 13. His decapitated body was found the next day just across the border, back inside Costa Rica, stuffed in an old United States mailbag, according to the police report. The head has not been found.

There are several indications that the Panamanian Army may have killed Dr. Spadafora. In their investigation, the Costa Rican police found two witnesses who gave sworn testimony that they saw Dr. Spadafora being detained by a Panamanian corporal at a military checkpoint on entering Panama.

In addition, a witness who lives near where the body was found told the police that he had seen two olive green cars of a make used by the Panamanian Army leave the site late in the night before the body was discovered. There is no checkpoint on the Costa Rican side of the border to prevent a car from driving across from Panama, the police rpeort said.

"All indications suggest that Dr. Hugo Spadafora was killed in Panamanian territory and his body thrown in Costa Rican territory," the police report says.

AN F-8 ON THE BODY

Dr. Spadafora's body also had a symbol cut into it that read "F-8," according to the report. Another Panamanian opposition leader, Dr. Mauro Zuńiga, was picked up and beaten last month by men he believed were in the Panamanian Army who wrote "F-8" on his back as well.

No one is sure what the letter and number denote, but last year the army had a special unit known as "F-7" that served as a paramilitary force to repress political opponents during the Presidential election, according to well-informed sources here. The army unit's leader was killed under mysterious circumstances, but the sources speculate that "F-8" may be the name of a new army unit or the symbol of a death squad formed in the memory of the previous unit.

What continues to puzzle observers here, however, is the brutality and openness of the killing of Dr. Spadafora. They say it is unlike the army to leave so many indications that it may have been responsible and unlike General Noriega, a man known for his subtlety, to authorize an action that could have high political costs. Some political analysts here speculate that Dr. Spadafora was killed by a group within the army to force General Noriega to take a harder line with opponents or to embarrass General Noriega and force him out of power.

INTERNAL OPPOSITION IN ARMY

Col. Roberto Diaz Herrera, a relative of Brig. Gen. Omar Torrijos Herrera, the former Panamanian leader, is believed to have led internal army opposition that nearly deposed General Noriega last week, according to a well-informed political analyst here.

Colonel Diaz has been resisting his mandatory retirement next February, but is now expected to be shifted from his job as Chief of Staff in a round of changes next week.

Though the crisis may blow over, Mr. Barletta's resignation appears to have done little so far to diminish tension here. Panamanians express deep cynicism toward the army after three years in which the military has either imposed or deposed five Presidents. The 15,000-man force is most often described as a kind of Mafia that makes millions from kickbacks and drug dealing.

"People speak of the Bolivianization of Panama," a political observer here said.

Army intelligence operatives have threatened local journalists in recent days, and the main opposition columnist has gone into hiding, according to reporters and editors here. Ambassador Briggs warned the opposition newspaper La Prensa on Monday that General Noriega might close the paper if it continued to criticize the army's actions, according to reporters and editors. An American Embassy spokesman refused to confirm or deny the report.

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[From the Washington Times, Sept. 30, 1985]

DEATH IN PANAMA

(By George Anne Geyer)

The strange destiny of Dr. Hugo Spadafora, 45-year-old Panamanian soldier of fortune and lover of revolutions, now stalks the steamy Central American isthmus he traversed like a driven man.

It is the kind of case that will haunt and very well may change Panamanian history. Yet it has barely been covered by an American press that sees the complex Central-American story only in terms of El Salvador and Nicaragua.

"Who was Hugo Spadafora?" And, further, "Who killed him?" are questions that show how clearly Central America, once composed of simple banana republics, more and more resembles the Balkans.

What we know:

Hugo Spadafora, a medical doctor from a good Panamanian family, probably was killed Sept. 14. He was returning the day before from Costa Rica to Panama, secretly by bus—as he often did to avoid detection by the National Guard or anybody else—when his bus was stopped near the border. Men in Panamanian National Guard uniforms boarded the bus and roughly hustled him off.

All the time, Dr. Spadafora was waving his ID card to the passengers, telling them who he was and that these were "G-2," or Defense Forces Intelligence, who were taking him. When his body was found on the Costa Rican side of the border, it was discovered that he had been castrated, while alive, his fingernails had been pulled out, and he had been beheaded. The head was never found.

Panama City was and is shocked and enraged. Panama can be a violent place, but this savagery was so far beyond historical norms of behavior that political analysts began wondering worriedly if Panama had not, underneath, changed in onimous ways.

What went before:

Dr. Spadafora was, by all accounts, a romantic revolutionary. He had studied in Italy; then, because he had met an African student he liked, he started his career in revolution by fighting in the early anti-colonial war in Guinea-Bissau.

From there he went with the Sandinistas; left the Sandinistas; joined former Sandinista Eden (Comandante Zero) Pastora when he formed an anti-Sandinista guerrilla group; left Mr. Pastora's group; became deputy minister of health in Panama; joined a Miskito Indian anti-Sandinista group; and then left Panama recently, reportedly to start a new "international" guerrilla brigade.

What people are saying:

Dr. Spadafora, in his recent forays in and out of Panama by bus, had been regularly attacking the Defense Forces (or National Guard) chief, Gen. Manuel Noriega, for drug trafficking. In particular, he did it through the extraordinary independent paper, La Prensa.

Everyone seemed to know that Gen. Noriega—one of the smartest, most cunning political brokers in the hemisphere and a man who deals as well one day with Fidel Castro as the next with the democratic leaders—was now enraged with him. (The truth or untruth of the charges, at this point, is impossible to prove or disprove.)

What else is going on:

One man's horrible death is quite enough, but a disturbing pattern has begun to develop in Panama, a country that always ws just enough outside the other Central-American horrors to set it apart.

For instance, another prominent doctor, Mauro Zuniga, was also kidnapped recently, beaten, and left for dead, apparently by men also dressed in guard uniforms. He recovered; but he, like the headless corpse of the once-romantic revolutionary, had had cut on his back "F-8 terrorists."

No one knows exactly what this means, but in recent months, there was the discovery of a mysterious "seventh section" in the National Guard that was a kind of intelligence vigilante section. A few of those men left the guard and revealed some of the secrets. As well, Dr. Zuniga had been part of a professional medical group that had come out against the guard and its chosen political candidates.

The guard's initial statement on the Spadafora killing was a Borgiaesque mix of threats and suggestions warning against any "major tolerance for guerrillas," rejecting "anarchistic methods of certain political and pressure groups," and speaking darkly of "plans from outside."

What it all could mean:

The bigger danger is that the whole agreement so meticulously hammered out between the Carter administration and Panama over the Panama Canal could be foundering on suddenly awakening local Panamanian passions that are taking as-yet-unrevealed but ominous turns.

His enemies charge that the superagent of the Americas, Gen Noriega, wants to expand the defense forces to four times what they are now in order to take over the defense of the canal; that he wanted to get rid of Panamanian President Nicolas Ardito Barletta [who resigned Saturday, saying he did not have the military or political support to run the government]; and that there lies within Noriega an ambition that burns far beyond the walls of the military headquarters here. He denies such charges.

Whatever the horrible truth of the Spadafora murder, as one knowing Panamanian said to me by telephone just after it occurred, "Somebody wanted to see what would happen."

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[From the Miami Herald, Sept. 3, 1984]

## Scandals Hint at Panama Role in Drug Trade

(By Guy Gugliotta)

Panama.—Lt. Col. Julian Melo, his onetime boss would say later, turned out to be "weak, morally," a tragic flaw in the end. Melo took a flier as official fixer for a bunch of Colombian drug traffickers and the fix didn't work.

Melo was arrested, publicly disgraced and cashiered from the Panama Defense Forces, of which he was the fourth-ranking officer. The public snickered.

Panama had long been regarded as a good place to launder money or stop secretly for gas during a long flight northward, but it had seldom had to deal with a big, public, narcotics-related stink. Worse the Melo case was only one incident among several.

The scandals might have been a spin-off of the April 30 murder of Colombian Justice Minister Rodrigo Lara Bonilla, an incident that has thrown the regional narcotics business into turmoil and set Colombia's drug bosses running in all directions.

The traffickers, accused of the Lara Bonilla murder, have left muddy footprints all over the Caribbean Basin, and many of them lead to Panama. The Defense Forces, which have thus far resolved every case to their own satisfaction, claim good detective work nipped the trafficking activities before they got out of control.

Others who refuse to be quoted by name, however, suggest that the Colombians and their Panamanian collaborators simply got sloppy in a time of stress, granting unwanted glimpses of a relationship which has existed for years.

At this point it is impossible to tell how involved Panama was, or is. There is only the record:

On May 6, less than a week after the Lara Bonilla killing, and again on May 26, respected Colombian public figures met in Panama with cocaine bosses intent on negotiating a return home. Details of the meetings were not revealed until July.

In mid-May, Panamanian authorities destroyed a cocaine processing factory complex in the Darien jungle 48 miles from the Colombian border. Captured Colombians were deported home after interrogation. Testimony was never made public.

On June 15, U.S. Customs agents at Miami International Airport seized 1,200 kilos of cocaine shut up in seven freezers aboard a Panamanian cargo jet inbound from Panama City. Neither the cocaine's buyers nor sellers has been apprehended.

On June 22 Panamanian agents at the Colon free trade zone announced without fanfare the capture of 6,159 barrels of ether, a reagent used in refining cocaine. A week later authorities busted Melo in the case and charged him with "conspiracy to commit a crime." This caused plenty of fanfare.

Each of these sensations provoked an initial burst of public outrage followed by a festering curiosity that remains unsatisfied today. The Defense Forces, which have dominated the Panamanian government for 16 years, have proved uncommunicative and unhelpful.

The master of the Panamanian system is Gen. Manuel Antonio Noriega, Defense Forces chief and the most powerful man in Panama. He is short and unprepossessing, a former intelligence officer with an unmatched reputation as a careful calculator of political odds. He speaks slowly and softly, seeming to drift, a master of the oblique confirmation, of the statement easily misconstrued.

"I can tell you that criminal organizations are always looking for ways to penetrate legitimate organizations, and they knock on all the doors," Noriega said in an interview. "Melo was weak, morally, and fell victim to the consequences."

The Melo case ended up as the centerpiece, but Panama's drug-related public woes began in early May during the uproar accompanying Defense Forces-sanctioned general elections. Emotions were running high, and perhaps the official guard was down.

Former Columbian President Alfonso Lopez Michelsen came to Panama as an officially invited election observer, but on May 6, election day, he met for 45 minutes at the opulent Marriott Hotel with several big-time cocaine traffickers. Among them were Pablo Escobar Gaviria. Colombia's most wanted fugitive, and Jorge Luis Ochoa Vasquez, a scion of the Medellin-based "Ochoa cian."

"They were uncomfortable, afraid," Lopez Michelsen said later. "Their principal objective was to show that they had nothing to do with the Lara Bonilla assassination."

The traffickers rumored to own "more than 100" high-rise condominiums in Panama, were being hounded by Colombian cops in the wake of the Lara Bonilla murder. Clearly they found Panama to their liking, at least initially. They showed again on May 26 for a second meeting with Colombian Attorney General Carios Jimenez Gomez.

This time the traffickers, represented by Escobar, two Ochoas and Gonzalo Rodriquez Gacha, "the Mexican," proposed a deal by which they would dismantle operations and repatriate as much as $5 billion in return for a pardon. They put this in a manifesto for Jimenez Gomez, who took it home.

This is the last record of the Colombians' presence in Panama. By the end of May, according to a federal indictment filed in Miami, Escobar, Jorge Ochoa and Rodriguez Gacha were involved in a conspiracy to export cocaine to the United States through Nicaragua.

Police and narcotics agents in several countries have cast doubt on this story, citing the Reagan Administration's enduring interest in discrediting Nicaragua's Marxist-led government. Still, the timing checks out. The traffickers set up the Nicaraguan shipment while they talked peace in Panama. Then they left town.

Some Colombian officials seem to say they think the traffickers have secretly returned home while others believe they stayed abroad. Nicaragua. Costa Rica and Venezuela are often mentioned destinations. Almost everyone agrees they have abandoned Panama.

"I consider that the business has never moved from Colombia." Noriega said. "Everything that has happened has made them leave Panama."

Panamanian hospitality, if it ever existed, began to sour between the Lopez Michelsen and the Jimenez Gomez visits when the Defense Forces, tipped off by a *campesino,* according to the official version, uncovered a newly built cocaine factory complex at Rio Quindio in the Darien jungle.

The Defense Forces arrested 23 Colombians, questioned them and subsequently released them to Colombian authorities. No pictures of the complex have ever appeared. No further information was ever published.

Unofficial but well-placed sources outside the defense forces provided additional information. The captured Colombians were indignant, these sources said, because they had made what they thought were the proper payoffs. The sources said the Colombians named Melo as their principal contact.

Noriega would not comment directly, but acknowledged that "there is a connection" between the Darien drug factory and the ether seizure a month later.

The ether, in 55-gallon drums, began showing up in Colon aboard several small ships in early June. Noriega said his agents quickly identified the cargo but decided to trace part of it by putting a satellite beeper abroad one of the early arrivals, *Sandra*. After *Sandra* docked in Colombia, agents in Panama began seizing ships.

According to news leaks and statements made later by Noriega and other Panamanian officials, Melo had made a deal with several unamed "Colombians" to allow the ether to pass through Panama unmolested. He was cashiered from the defense forces June 30.

In fact, either is not a controlled substance in Panama. Trafficking in it is perfectly legitimate as long as Panamanian laws are respected. Noriega said the defense forces based their case "on the concept that the cirime is going to be committed following the investigation."

By this time, other things had happened as well. Besides the Darien factory and the ether busts, authorities now had the freezer seizuer in Miami—a cash loss of some $22 million to the wholesaler, who was never identified.

The cocaine-stuffed freezers were unmanifested—and therefore illegal—cargo aboard INAIR airlines' regular Panama-to-Miami flight June 15. Federal authorities questioned and released three crew members and two passengers and fined INAIR for carrying unmanifested cargo. The Panamanian Civil Aeronautics Board suspended INAIR's license, but has not charged the airline with any crimes.

INAIR's cause has not been helped, however, by pilot Ruben Ortiz, whose passport and personal belongings were found aboard a plane full of marijuana that crashed off the Bahamas a week after the airport seizure. Oritz claimed not to have been aboard the plane, but is back in Panama recovering from mysterious injuries.

The Darien, INAIR and Melo affairs crested in early July, just as Columbian news organizations were beginning to break the story of the May meetings. Nothing further has come to light and the Defense Forces have left the public to draw its own conclusions.

The political opposition believes that Melo was a scapegoat for military sins without number. It wonders about INAIR pilot Ortiz. It asks what kind of deal the traffickers worked out to be able to operate here. It also asks why Melo is a free man.

The Defense Forces on the other hand, regard the ether seizure as a sophisticated piece of policy work. The Darien bust proved that *compesinos* trust the military. Melo was a single bad apple—identified, arrested and purged.

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[From the Washington Post, Apr. 18, 1984]

## Ex-President Again Defies Panamanian Armed Forces

(By Edward Cody)

Panama City.—With three weeks until the vote, Panama's presidential election has hardened into a showdown between the armed forces and an aged nationalist whom the military has already overthrown three times in the last 43 years.

The May 6 balloting, Panama's first in 16 years, has begun to strain the military's repeated pledges to return the country to elected civilian rule, according to opposition politicians and foreign diplomats. They say this is because of growing signs of support for former president Arnulfo Arias over the military-backed candidate, Nicolas Ardito Barletta.

Although Washington's attention seems fixed on the Salvadoran runoff election, also May 6, the Panamanian presidential race has its own importance for administration policy in Central America. A reversal of the evolution toward democracy here could reorder congressional and regional debate and result in political unrest beside the strategic canal—which is to come under Panamanian control by the year 2,000.

Arias, the 82-year-old candidate of an opposition alliance, has long been identified as an opponent of the National Guard, now formally called the Defense Forces. In campaign appearances over the last several months he has burnished his antimilitary image further, playing on what aides say is a conviction that Panama's ap-

proximately 900,000 eligible voters are tied up with 16 years of direct and indirect military rule.

"Gentlemen, we will finish with the drugs that are sold on every corner of this city and the other cities of the republic, because this is the fault of the [National] Guard, which brings them in to degenerate us completely," he said in an address Saturday in the Caribbean port of Colon.

Ricardo Rodriguez, Arias' vice presidential running mate, also hammered on the theme. While the National Guard has denied any role in *drug trafficking*, the charge is a recurrent one here. Still, although an opposition press flourishes, the subject had been muted here since a 1968 military coup toppled Arias for the third time and opened the way for Gen. Omar Torrijos and his successors as National Guard commander to control the country.

"Do the Panamanian people want the National Guard to retreat?" Rodriguez shouted to the festive crowd of at least 50,000. "Yes," the crowd cried back. "Do they want the guard to go back to the barracks?" Rodriguez shouted again. "Yes," his listeners screamed, laughing delightedly.

In private meetings with National Guard officers, leaders of Arias' alliance have warned the current commander, Gen. Manuel A. Noriega, that as president, Arias would end the National Guard's control over the key traffic police, the National Department of Investigations and the customs and immigration service, political aides said.

This is a delicate issue, they pointed out, because some military officers are described by Panamanian and diplomatic observers as having extracted considerable sums of money from corruption in customs and immigration. "They're not just getting rich," Rodriguez said in an interview. "They're flaunting it."

In response, Noriega has repeatedly promised the National Guard will abide by the vote, even if Arias wins. He told an interviewer Saturday that Arias' plans for restructuring the armed forces would not be carried out because they are only "words said in the heat of an electoral campaign."

Behind the appearance of calm, however, are signs that Noriega has begun to feel some concern. Diplomatic sources reported, for example, a sharp increase recently in the number of his visits, by helicopter, to villages where military Civil Action programs such as road building are underway. The general, sporting a white sweat shirt, led an unusual two-hour "civic action and sport" parade through the heart of Panama City on Friday designed to dramatize popular support for the military.

"The peace general," some T-shirts handed out to the marchers. "Friend of the Defense Forces," others were emblazoned. Still others bore the name of Gen. Noriega.

"The Defense Forces have definitively sealed their destiny with the people," Noriega declared at a rally in a square overlooking the canal after the march.

Ardito Barletta, who resigned as a World Bank vice president in Washington to run for elective office for the first time, did not attend. He heads the National Democratic Union, an electoral coalition whose leading component is the Democratic Revolutionary Party founded by the National Guard as a political vehicle for the military-based populism incarnated in Torrijos until his death in 1981.

Emphasizing the point, Ardito Barletta's campaign posters show the candidate on one half and the late Torrijos on the other, in his trademark bush hat. "The line," the posters read in giant letters between the two images.

Roderick Esquivel, Ardito Barletta's vice presidential running mate, joined the union despite his Liberal Party's tradition of opposition to guard dominion in politics. He has cited as explanation the need to avoid a direct challenge to the military if officers are to be weaned away from interference in government. Arias' confrontational approach could generate trouble, as it has in the past, he has warned.

Noriega also emphasized a desire for "peace" in Friday's demonstration. Arditio Barletta picked up the theme as well in a weekend rally, saying: "What our people are telling us is that they want to maintain peace in this country, that they want to return to the path of economic progress and generate the jobs Panamanians need."

Seeking to evoke more concern, the promilitary newspaper La Republica revived charges that Arias demonstrated Nazi sympathies during his first presidency in 1941 and that he had played a role in the killing of a group of Jews who had settled on farms here after fleeing Germany.

The National Democratic Union has published several opinion polls showing Ardito Barletta with six to eight points more than Arias, and former National Guard commander Ruben Dario Paredes placing a distant third. The opposition alliance has questioned their reliability, however, and diplomatic sources underlined the difficulty of assessing pol's in Panama's free-wheeling political campaign.

Arias' followers base most of their optimism on his reputation as a past favorite. That reputation has been untested at the polls for years. But it seemed fortified by the shouting, flagwaving crowds in Colon.

Although frail, unsteady on his feet and uninspiring as a speaker, Arias seemed easily to elicit enthusiasm from the massive audience with simple, broadside attacks on the military and vague promises of better economic times. "He is the last of the *caudillos*," smiled Louis Martinz, a campaign aide.

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[From the Wall Street Journal, Nov. 3, 1983]

## CASH HAVEN: PANAMA IS BECOMING TOP SPOT TO DEPOSIT ILLEGAL NARCOTICS PROFITS

(By Stanley Penn)

Panama City, Panama.—Unloaded from light aircraft in cardboard boxes and valises, the cash pours in—more of it every year. For Panama, a tax haven with one of the Western Hemisphere's tightest bank-secrecy laws, is fast becoming a favored spot to stash illicit drug profits.

Narcotics traffickers have grown wary of using U.S. banks, where all large cash transactions are routinely scrutinized. And in recent years, certain other foreign tax havens have begun loosening bank-secrecy laws, making them less attractive repositories for illicit drugs. But foreign deposits still disappear into Panamanaian accounts without a trace, and neither the country's bankers nor its government officials seem inclined to change the status quo.

Last May 4, U.S. law-enforcement officials thwarted the takeoff of a private Lear jet bound for Panama from Fort Lauderdale. On board were Ramon Millan-Rodriguez, a Miami accountant, and $5.4 million cash. Mr. Millan-Rodriguez was later indicted on drug-money distribution charges and violations of U.S. currency laws, including the failure to declare to U.S. Customs that he was taking more than $5,000 out of the country.

### ACCUSED TRANSFER AGENT

In papers filed in Miami's federal court, the government charges that Mr. Milan-Rodriguez earns $1 million annually arranging for the transfer of money out of the U.S. Documents seized from him, according to the government, show that over an eight-month period, a Panamanian armored-car service had received $150 million for deposit in banks there. Through his attorney, Mr. Milian-Rodriguez denies any wrongdoing.

Another criminal case in Miami suggests that some members of Panama's National Guard, the powerful military-police arm, may be helping to launder money shipped from the U.S. Two officials of a private Panamanian freight carrier. Inair Cargo Airlines, were indicted last June by a federal grand jury for conspiring to move "multi-million-dollar shipments" of cash to Panama from Miami in Inair transport planes. In a pretrial hearing, Assistant U.S. Attorney Kenneth Noto said he had a tape containing a defendant's statement that "when the money goes into Panama it will be guarded by the National Guard of Panama."

"In the past year or so," says William Rosenblatt, a special agent of U.S. Customs in Miami, "Panama has become the No. 1 country for laundering narcotics dollars." Mr. Rosenblatt, who specializes in investigating illicit money transfers, adds: "I base my estimate on the financial flow we're looking at in South Florida."

### AN EXCESS OF DOLLARS

Though the total amount of drug dollars moving into Panama isn't known, specialists believe it has risen sharply. One clue is that Panama's banking system is swollen with excess U.S. dollars. Panama, which uses the U.S. dollar as its paper currency, regularly collects surplus dollars from its commercial banks and ships them to U.S. Federal Reserve banks for deposit or transfer to other banks.

According to a U.S. Treasury source, Panama last year exported to the U.S. about $1 billion in actual cash, nearly twice 1981's approximately $550 million, and five times the $200 million shipped in 1960. "The amount last year was mind-bogging," the source says. "A high percentage of it was in $20-denomination bills," which are commonly used in the purchase of narcotics.

Hot, humid Panama City is 2½-hours by plane from Miami, the U.S. distribution center for illegal cocaine and marijuana shipped from South America. Many of Miami's major traffickers, as well as the money-launderers they employ, are His-

panic. They prefer Hispanic Panama to the English-speaking Bahamas or Cayman Islands, other popular tax havens in the Western Hemisphere.

"It's Latins dealing with Latins, making for a more comfortable setting," says Edward M. Guillen, a U.S. Drug Enforcement Administration undercover agent in New York.

### SECRECY LAWS

Panama's stringent bank-secrecy laws are a comfort, too, for those who wish no questions asked about the source or size of their deposits. Bank employees who disclose deposit information to outsiders are punished with a maximum six-month prison sentence and a $10,000 fine. Bank secrecy may be lifted through a Panamanian court order showing that a crime took place, but such orders are hard to come by.

Panama has about 138 banks, most of them branches of foreign banks and nearly all of them licensed to accept foreign deposits. Typically, offshore depositors form a "paper" company in Panama, which then opens a Panamanian bank account. Actual corporate owners, by appointing "nominee directors," needn't identify themselves in corporate papers. For a fee of $600 to $1,500, nearly all of Panama's 2,000 lawyers will register a company at Panama City's Public Registry office. Thus, Panama ensures a double layer of secrecy: anonymous ownership of a company with deposits in a secret account. Another attraction to offshore depositors is the absence of restrictions on the amount of money shipped into or out of Panama.

"Bank deposits are not something we can monitor easily," says a high Panamanian government official, who asks not to be identified. A Panama banker, claiming to speak for the banking fraternity, argues that banks aren't cops, and thus can't be held accountable for the source of deposits. Somewhat testify, he adds that if the U.S. government presented "hard facts" that a Panamanian bank is conniving to conceal criminal money "we would do something." But he says, "no hard facts have been presented against any Panama bank."

Lawmen in Panama and the U.S. insist, however, that some Panama banks—a minority—shut their eyes to the receipt of illicit money. "You can't tell me that when a large amount of cash is brought into the bank in suitcases and cardboard cartons, bank officials assume it's a legitimate transaction," a lawman says. "A small number of Panama banks are giving the rest a bad name."

One major U.S. drug bust suggests the frustrations of trying to obtain Panama's cooperation in combating money-laundering. The undercover "Operation Swordfish" led to the indictment of various traffickers and money-launderers in Miami's federal court last October. The indictment listed secret Panama bank accounts in which the defendants' profits were allegedly hidden. Panamanian authorities were sent the information, but so far, as U.S. lawman in Miami says, they have taken "no action on those accounts to our knowledge."

Reached by telephone in Panama, a National Guard officer says he can't address the specifics of that case. But in general, he says, "If the Panama government asks a Panama bank how much money is in a secret account, the bank officer would be within his rights to deny such information."

Panama attracts large amounts of "flight capital" from European and Latin American investors who don't want their own governments to know the whereabouts of their deposits. Panama's banking industry, as a result, has become a linchpin of the economy, employing 8,000 people in a country of high unemployment. "Panamanians are afraid they'll jeopardize the whole shooting match if they give an inch (on bank secrecy)," says a diplomat in Panama City.

Meanwhile, some other tax havens have begun opening bank records in response to pressure from law-enforcement officials. Under a 1977 treaty between the U.S. and Switzerland, access to Swiss bank-deposit information is given to prosecutors of certain white-collar crimes in the U.S. In the Cayman Islands last year, a high court ruled that Cayman banks must open their records, if the documents are vital to prosecuting a case and if the offshore offense is also considered a crime in the Caymans. The U.S. Senate Permanent Subcommittee on Investigations warned in a study last February that as other tax havens ease secrecy restrictions. "In 10 years much of the European and Western world's criminal money will reside in Panama."

### ATTITUDE ON DRUGS

While Panama's National Guard seems eager to help apprehend drug traffickers, its attitude toward the laundering of drug profits is less clear. The Guard, Panama's law-enforcement body, allows the U.S. Coast Guard to board Panamanian vessels suspected of transporting cocaine and marijuana from neighboring Colombia to the

U.S., American sources say. It also has seized fugitives implicated in U.S. crimes who were hiding in Panama. But a law-enforcement official in the U.S. says he was once told by a National Guard officer that "anybody who wants to can run money into Panama."

The Guard's possible complicity in money laundering was raised at the recent Miami trial of Abelardo Valdes-Guerra, the $50,000-a-year Panamanian general manager of Inair Cargo Airlines.

According to the one-count indictment, four defendants, including Mr. Valdes-Guerra and Jorge D. Solis-Krete, Inair's president, conspired to use "non-U.S. diplomatic channels" and other devices to transport unreported money to Panama. The defendants allegedly were to get a 12% cut of the money shipped. Unbeknown to them, however, the man whose funds they were to transport was a U.S. undercover agent.

In a videotape played by the U.S. government at Mr. Valdes-Guerra's trial, the defendants talked in a Miami hotel about shipping $2 million cash in cartons. The funds were to reach Panama at 4:40 a.m., and there was some discussion about what to do with the $2 million until the banks opened at 7:30 a.m.

Mr. Valdes-Guerra is represented on the tape as saying, "I have the connection to let them in at the (Panama) airport. Try to come out by the military gate. That's as far as I go." At another point, he says, "I got military guards in the station (at the airport). So it's no problem over there. I will tell the guards nobody can touch this."

Mr. Valdes-Guerra, a former official of Panama's Social Security Administration, was convicted in August. He was later sentenced to a six-month jail term and three years' probation. Mr. Solis-Krebs hasn't yet been tried.

Inair Cargo wasn't charged with any wrongdoing. Richardo A. Bilonick Paredes, a former Panamanian ambassador to the U.S. who is Inair's chairman and a chief shareholder, says Mr. Valdes-Guerra and Mr. Solis-Krebs were removed from their posts after their arrests. Mr. Valdes-Guerra was fired after his conviction, Mr. Bilonick says, while Mr. Solis-Krebs remains on the payroll.

At the Valdes-Guerra trial, the U.S. government put in to the court record a laminated business card that it said had been in Mr. Valdes-Guerra's possession. The card bears the name of Lt. Col. Alberto L. Purcell, who is a member of the National Guard's general staff, according to a Panamanian government employee.

### NOTE ON A BUSINESS CARD

Lt. Col. Purcell is listed on the business card as inspector of military zones. (Sources say that he has been given broader responsibilities since the card was issued.) On the back of the card is a handwritten message in Spanish. Translated by a U.S. lawman, it reads: "The bearer, Mr. Abelardo Valdez, is a personal friend of your superior. Whatever cooperation, I authorize and appreciate." It has what appears to be Lt. Col. Purcell's signature and is dated 1982.

"These business cards (from the National Guard) are kept and cherished," a U.S. lawman in Miami says. "It's like carte blanche. It shows you are connected."

In a phone interview, Lt. Col. Purcell declines to say whether he gave the card to Mr. Valdes-Guerra. Instead, he says: "That card don't mean nothing. I give the card to my personal friends. That (card) don't authorize them to do anything illegal."

Only relatively recently, U.S. lawmen say, have traffickers felt compelled to physically ship cash in bulk to Panama. In the past, they would usually instruct U.S. banks to wire-tran[illegible] their deposit to secret accounts in Panama and elsewhere. But the U.S. government has stepped up enforcement of a 1970 law requiring U.S. banks to file forms with the Treasury of all cash transaction over $10,000—including deposits, withdrawals and the purchase of cashiers' checks. This bank data has been used in investigating and prosecuting drug traffickers and other criminals. So criminals have been bypassing U.S. banks, arranging for the physical transfer of cash to Panama and elsewhere instead.

Panamanians insist that criminal money accounts for only a small percentage of total foreign deposits, and that they won't do business with foreigners suspected of involvement in crime. Carlos A. Lopez Guevara, a prominent Panamanian layyer, says that if a prospective client mentions millions of dollars for deposit to Panama, "my reaction is he's a crook, or lying. I'll say no, perhaps you will find another lawyer."

### COMMODITIES FRAUD

Still, Panama remains a haven for the unscrupulous, as is evidenced by 1982 testimony before the U.S. Senate investigations subcommittee looking into commodities fraud. In that testimony, Richard Waggoner, a businessman convicted of charges

stemming from a commodities-fraud scheme, described the ease with which he started a Panamanian company to sell nonexistent oil for future delivery to unsuspecting U.S. investors. The operation collected some $3.6 million before authorities in the U.S. closed it down. Almost none of the money has been recovered.

To convince U.S. wholesalers and retailers of the outfit's legitimacy, Mr. Waggoner testified, "we had a totally phony Dun & Bradstreet report made up by a Dun & Bradstreet representative in Panama, showing our net worth to be about $15 million." (Dun & Bradstreet says it has investigated and believes its Panama correspondent acted "in a professional and honest manner.")

The next step, Mr. Waggoner said, was getting a Panamanian to certify the phony financial statements. He says he also got a letter from the Panamanian branch of a large Spanish bank, providing bogus verification of the company's supposed "six-figure line of credit and our longstanding relationship with the bank."

Mr. Waggoner, who at the time of his testimony was serving a three-year prison term, summed up by saying that he had also had secret bank accounts in Luxembourg and Switzerland. But Panama, he said, was the best, because it "made you feel secure that there was absolutely no way (anyone) could find information out about the accounts."

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## PANAMA'S ALARMING CASH FLOW

Senate investigators have discovered that in recent months Panama's central bank has shipped hundreds of millions of dollars in U.S. currency to the Federal Reserve Bank of New York. William Roth, chairman of the Senate Permanent Subcommittee on Investigations, has launched an inquiry to determine who is moving the money and why. One strong possibility is that Panama has become a new stop on the laundry route for South American drug-trade profits. Roth will hold hearings on the results of the probe later this summer. He is also preparing legislation designed to help U.S. enforcement agencies penetrate the secrecy of Caribbean and South American banks used by drug dealers and white-collar criminals to mask their financial transactions.

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